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Miscellaneous Articles

on

German Banking

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United States.

NATIONAL MONETARY COMMISSION.

Miscellaneous Articles on German Banking

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I

THE STATISTICAL HISTORY OF THE GERMAN BANKING SYSTEM: 1888–1907.

By Robert Franz, editor of *Der Deutsche Oekonomist*, Berlin.

(1) GENERAL SECTION.

(*a*) INTRODUCTION.

One of the characteristic features of the recent economic development of the world is the leading part taken by German industry and trade. Products of German labor are found nowadays on all the leading highways of world commerce. But even the younger German generation finds it difficult to realize that the present economic status of Germany is for the greater part the result of a development which has taken place during the comparatively short period of two decades. Except for temporary depressions, such as are observed in the economic life of all countries, the line of development during the period mentioned has been a vigorously ascending one. This is true particularly of the last decade, during which German economic activity has made extraordinary strides on the road of progressive development.

A detailed account of the causes and results of this progress would exceed the compass of the present study. But the growth of German banking is so closely and organically interwoven with the general economic development of the nation at large that a brief sketch of this general development, made somewhat more plastic by the presentation of certain characteristic statistical data, would seem to be in place.

The war of 1870–71 had at last brought to Germany the political and economic union for which she had longed and labored for decades. The German name had all at once become honored and respected among the nations of the world. This change may be said to have given the first powerful impetus to German enterprise. The new movement was favored by the act of June 10, 1870, which abrogated the former obligation of obtaining a state concession for the forming of stock companies and limited liability corporations. The new law greatly facilitated the consolidation of capital. The flower which it brought forth was, however, short-lived. The period of splendor, known in the pages of German economic history as "Gründerjahre" (bubble era), ended finally in a severe crisis and a long-continued depression.

The manifestations of unbridled enterprise and excesses of speculation were followed by a period of utmost depression and loss of all spirit of enterprise. The psychological factor of confidence, which must always be present in order to put economic forces into action, was missing. Such forces existed, on the one hand, in the natural resources of the country (treasures of the soil, etc.), and, on the other, in the living force of a rapidly increasing population. Particularly for the latter, however, there was little employment, and every year—as will be seen from the emigration statistics—Germany yielded of its best stock to the growing economic regions abroad, and particularly large numbers to North America.

German transoceanic emigration during the years of 1872 to 1888 was as follows:

Year.	Total.	To the United States.
1872	125,650	119,780
1873	103,638	96,641
1874	45,112	42,492
1875	30,773	27,834
1876	28,368	22,767
1877	21,964	18,240
1878	24,217	20,373
1879	33,327	30,808
1880	106,190	103,115
1881	210,547	206,189
1882	193,869	189,373
1883	166,119	159,894
1884	143,586	139,339
1885	107,238	102,224
1886	79,875	75,591
1887	99,712	95,976
1888	103,951	94,364

The large increase of emigration in 1880, almost all of which was to North America, was probably for the greater part due to the vigorous economic growth of the United States, characteristic of those years, particularly to the energetic extension of the railroad systems which caused an increasing demand for workmen. This stimulation of the spirit of enterprise spread from America over the entire civilized world. In Germany the movement received a special impetus through the railroad nationalization started by Prussia. This raised hopes for a speedy extension of the railroad system and a prospective larger demand for the products of the mining and iron industries.

Another factor working in the same direction was the revision of the customs tariff, undertaken in 1879 and based upon financial and economic considerations. The policy of free trade was abandoned and replaced by industrial and agricultural protective duties. Important

branches of industry expected that the change of tariff would prove an effective protection against foreign competition, which had made itself more and more felt owing to better and more extensive transportation facilities.

Memories of the "bubble era" and of the bad consequences of the excesses of that time were sufficiently vivid, however, to restrain most people. And as at that time Germany's participation in the world trade was not very large, she was not greatly affected by the international stock exchange crisis which had its origin in the so-called "Bontoux failure" at the Paris Bourse. The general economic improvement which had started in 1875 continued slowly until 1888, and it was only about that time that increased activity became evident.

In the field of economic legislation, besides the new customs tariff act of 1879, the act of 1884 concerning stock shares should be mentioned. The impetus for this legislative reform is to be found in the numerous abuses and fraudulent practices connected with the system of stock issues during the "Gründer" era.

While the necessity of reforms was generally conceded, some apprehension was felt among numerous industrial classes, that the new law for the regulation of stock issues might completely stifle the spirit of enterprise in the country. This apprehension, however, proved entirely groundless. The act left sufficient scope for free and unfettered combinations of individual enterprise and capital, in the shape of stock companies. Thus it may be briefly mentioned that the number of stock companies annually formed increased from 70 with a capital of 53,000,000 marks in 1885, to 113 with a capital of 103,000,000 in 1886,

to 168 with a capital of 128,000,000 in 1887, to 184 with a capital of 194,000,000 in 1888, and to 360 with a capital of 403,000,000 marks in 1889.

The year 1888 marks for Germany the beginning of a vigorous development in all fields of industrial endeavor. And it is for this reason that the present statistical study of the development of German banking commences with that year. Before entering upon the subject proper, a brief review of the general economic development of Germany, as expressed in a few striking figures, taken from official sources, may not be out of place.

The population in Germany increased from about 47,000,000 in 1888 to 63,000,000 in 1907.

Oversea emigration between the years 1888 to 1907 shows the following figures:

Year.	Total.	To the United States.
1888	103,951	94,364
1889	96,070	84,424
1890	97,103	89,765
1891	120,089	113,046
1892	116,339	111,806
1893	87,677	78,249
1894	40,964	35,902
1895	37,498	32,503
1896	33,824	29,007
1897	24,631	20,346
1898	22,221	18,563
1899	24,323	19,805
1900	22,309	19,703
1901	22,073	19,912
1902	32,098	29,211
1903	36,310	33,646
1904	27,984	26,085
1905	28,075	26,005
1906	31,074	29,226
1907	31,096	30,431

The statistics of the various trade associations (created by the Workmen's Insurance legislation) show a relatively larger increase of the number of industrial wage-earners than of the general population. The amount of horse-power represented by steam engines increased 128.3 per cent between 1895 and 1907. To this total must be added the amount represented by the other motive forces—gas, electricity, and water—which have been developed considerably, particularly during the last ten years. The result has been an important increase in the power of production. German foreign trade (special trade) amounted in 1889 to 7,343,500,000 marks; in 1907 to 15,597,600,000 marks. The figures prior to 1889 are not fairly comparable with those of the following years, as in 1888 Hamburg and Bremen joined the German Customs Union.

The production of coal in the year 1888 was 63,390,000 tons, in 1907, 143,220,000 tons, the production of lignite in the year 1888 was 16,570,000 tons, in 1907, 62,420,000 tons. The production of pig iron amounted in 1888 to 4,180,000 tons, in 1907 to 13,050,000 tons.

The consumption of coal per capita for 1888 was 1.24 tons, and for 1907, 2.21 tons; of lignite for 1888, 0.456 ton, and for 1907, 1.15 tons; of pig iron for 1888, 96.53 kilograms, and for 1907, 197 kilograms; of copper for 1889, 0.96 kilogram, and for 1907, 2.42 kilograms; of lead for 1889, 1.58 kilograms, and for 1907, 3.02 kilograms; of zinc for 1889, 1.71 kilograms, and for 1907, 2.82 kilograms; of tin for 1889, 0.18 kilogram, and for 1907, 0.25 kilogram. The German railroad system expanded from approximately 40,000 kilometers of line in 1888 to approximately

56,200 kilometers of line in 1907. The number of tons of freight carried one kilometer on the German railroads increased in the same period from 20 to 48 billions. The tonnage of seagoing vessels arriving with cargo at German ports increased from 10,430,000 to 23,570,000 tons. The combined market value of securities, both domestic and foreign, issued on German exchanges and placed in Germany, between the years 1888 and 1907, represents a total of 37,323 million marks. It should be stated in this connection that the total value of foreign securities placed in Germany is estimated approximately, the exact figures not being available.

The few figures given above illustrate the tremendous economic expansion of Germany during the twenty year period 1888–1907. They demonstrate a considerable increase and extensive circulation of capital. This movement of capital naturally passes through the banks and is brought about by them. As collectors and distributors of capital, the banks are, so to speak, the focal point of economic life. And if Hobson's saying, "The whole industrial movement might be regarded from the financial or monetary point of view" (Evolution of Modern Capitalism, p. 7), is correct in general, it is particularly so for Germany, as will be seen from the subsequent discussion of the German credit banks.

(*b*) GENERAL SKETCH OF BANK AND CREDIT ORGANIZATION IN GERMANY.

The present study deals with three kinds of credit institutions—the note banks (banks of issue), the credit banks, and the land credit institutions (mortgage banks and land

mortgage associations). This division gives at the same time a general idea of the credit system in Germany.

The present organization of the note-bank system is based on the bank act of March 14, 1875, and the supplement to this act of June 7, 1899. Even previous to the founding of the German Empire the greater part of Germany had become united commercially through the formation of the Customs Union (*Zollverein*). Similar further movements toward union, however, had met with but little success in the domain of currency and with none whatever in that of banking. In the newly founded German Empire seven different monetary systems were in existence, and as all German States, with the exception of the free city of Bremen, were on a silver basis, there was above all a great want of a well regulated and adequate circulation of gold coin. The prevalence of paper circulation was felt in the most annoying manner.

Thirty-two banks had the right to issue notes, and in the absence of adequate legislation, it was found on many occasions that the notes issued were not sufficiently secured.

The first step which the Government took to improve these conditions was the act of December 4, 1871, concerning the coining of imperial gold pieces. The coinage act of July 9, 1873, which proclaimed the gold standard for the Empire, formally completed the organization of the German currency system. It was recognized more and more that, in order to give effect to the gold standard, which for the time being existed merely on paper, and in order to regulate and supervise the entire currency circula-

tion, the establishment of a central bank was an absolute necessity. This consideration finally led to the establishment of the German Reichsbank, which came into being on January 1, 1876, absorbing at the same time the Bank of Prussia (note bank).

The bank act of March 14, 1875, realized the principle of the central bank as far as it could be reconciled with the rights of the existing 32 private note banks. For it must constantly be borne in mind that the German Empire is not a unitary state, but a mere federation of states, and it is because of this federal character of the Empire that every institution newly created by the Imperial Government always had and still has to take into account conditions and institutions as they exist in the different federated states.

The predominance of the Reichsbank over the private note banks was secured through its considerably larger capital, further through the volume of its tax-free note contingent, which exceeded considerably the amount of all the other contingents, and which subsequently was to increase still more through the accretion of the contingents of the note banks which might renounce their rights of issue.

The note circulation is subject to the limitations of the so-called indirect contingent. It must not exceed three times the cash reserve (bullion and specie, imperial treasury notes). Within this limit the issue of notes is not restricted. A note tax of 5 per cent per annum must, however, be paid to the Imperial Treasury on that part of the note circulation which exceeds the amount of cash

reserve (bullion and specie, imperial treasury notes, and notes of other banks) plus the tax-free note contingent. The tax-free note contingent of all the note banks amounted at first to 385,000,000 marks, 250,000,000 marks of which was the share of the Reichsbank. The tendency, which had existed from the beginning, to centralize the note issues more and more in the Reichsbank, was furthered in a great measure by the provision which authorized the Bank to establish branches all over the Empire. This authority was implied by the fact that it had absorbed the Bank of Prussia, with its branches. All the Reichsbank had to do was to further extend the network of branches in proportion to the increasing volume of business of the Bank and to the growing industrial development of the various parts of the country (the operations of the Bank of Prussia had naturally been restricted to Prussia).

As far as its legal organization is concerned, the Reichsbank is neither a government institution proper, nor a mere private corporation. The capital, divided into shares, has been furnished by private individuals, and the shares are dealt in on the exchange; they circulate indorsed in blank; the Reichsbank acknowledges only those as share owners whose names are registered on its books. The shareholders, however, have no influence whatever on the management and administration of the Reichsbank. The Reichsbank is under the supervision and direction of the Imperial Government, which, however, is not liable for its business results. The direction is exercised by the Imperial Chancellor and under him by the

Reichsbank directorate. The governmental supervision is exercised by a bank curatorium, composed of the Imperial Chancellor and four other members, one of whom is named by the Emperor and three by the federal council. The Reichsbank directorate is the managing and executive board, representing also the Reichsbank in dealings with third parties. The president is the head of the directorate. The president, the vice-president, and the members of the directorate are appointed by the Emperor upon the recommendation of the Federal Council. The shareholders are represented by the central committee, which is, however, essentially an advisory rather than a decreeing board. At the principal branches of the Reichsbank advisory subcommittees have been formed, composed of local shareholders. The Empire participates in the profits of the Reichsbank.

In order to make possible amendments which might be found advisable in the course of development, the bank act of March 14, 1875, had reserved to the Empire the privilege of either liquidating the Reichsbank—the first date being January 1, 1891, and after that every ten years, with one year's notice—or of acquiring the total issue of shares of the Reichsbank at their nominal value plus their participation in half of the reserve fund.

At the expiration of the first period of fifteen years the Empire deemed it sufficient to demand a larger share in the net profits of the Reichsbank. January 1, 1901, was the second term at which the privilege of the Reichsbank might have been withdrawn. Neither at that time did the Government deem it advisable to make fundamental

changes in the charter of the Reichsbank. The combination of private capital and state management was found to work so well that the Government offered decided opposition to all efforts toward nationalizing the Reichsbank through the acquisition of the share capital by the Empire. But in view of the experiences of the past decade and the progressive economic development of the country it was deemed advisable to strengthen the given structure by increasing the operating funds of the Bank and to devise means of rendering more effective its discount policy as against that of the private banks of issue.

Accordingly the principal provisions of the supplemental bank act of June 7, 1899, are as follows: The capital of the Reichsbank is increased from 120,000,000 marks to 180,000,000 marks. Of the total profits 3½ per cent is first paid over to the shareholders; 20 per cent of the remainder is then transferred to the reserve fund as long as the latter has not reached the amount of 60,000,000 marks; of the remainder one-fourth goes to the shareholders and three-fourths to the Empire. In case the profits do not amount to full 3½ per cent on the capital, the deficit has to be made up out of the reserve fund.[a] The tax-free note contingent of the Reichsbank, including the contingents of other note banks which had

[a] According to the act of 1875 a dividend of 4½ per cent was paid the shareholders before any other allotment was made, then 20 per cent was to be carried to the reserve fund so long as this fund was less than one-fourth of the capital; of the remainder one-half went to the shareholders and one-half to the Empire, so long as the total dividend of the shareholders did not exceed 8 per cent; of the excess the shareholders received one-fourth, the Empire three-fourths. The supplemental act of December 18, 1889, left the mode of distribution essentially unaltered, but simply changed the above rate from 8 per cent to 6 per cent.

meanwhile accrued to it, is increased to 450,000,000 marks, while the total contingent of all the note banks then in existence is raised to 541,600,000 marks. Beginning with January 1, 1901, the Reichsbank must not discount below its official rate whenever this rate has reached or exceeded 4 per cent.

Beginning with this date the private note banks are not permitted to discount below the official rate of the Reichsbank whenever the same has reached or exceeded 4 per cent. Moreover, their rate must not be more than one-fourth of 1 per cent below that of the Reichsbank whenever this rate is less than 4 per cent. In case the Reichsbank discounts at a rate below its official rate, at a so-called "private rate," the rates of the private note banks must not be more than one-eighth of 1 per cent below that rate. In case a private note bank acts contrary to this provision, its privilege of issuing notes may be withdrawn by judgment of the court.

These are the most important provisions of the supplemental bank act of 1899. As stated above, their main purport is to increase the power of action of the Reichsbank and to strengthen its position as a central note bank, especially in the field of discount operations and discount policy.

With the year 1910 another decade is about to expire and the questions of the renewal of the privilege and of an eventual amendment of the bank act are again discussed and to be decided. Owing to the extraordinary money stringency during 1907, which various circles attributed directly to defects in the German monetary

system and bank organization, these questions aroused great public interest. In view of this general interest the Government on its part as early as the spring of 1908 instituted an extensive bank inquiry, which covered also certain parts of the credit bank system.

The commission of inquiry, composed of 23 members, heard experts from among the legislative bodies, industry commerce, agriculture, and scientific specialists, and is to digest and analyze the facts gathered during the inquiry. It has recently terminated its labors, but has not yet formulated its conclusions. It is left to the Government and the legislative bodies (Bundesrath and Reichstag) to utilize the results of this inquiry.

The Government, however, emphasized from the start that it would not indorse any radical changes of the German monetary and banking system, nor of the fundamental organization of the Reichsbank, an institution which during its existence has rendered effective economic service to the country. The new bank bill, which has recently been presented to the Reichstag, is in accord with this general idea. It appears, therefore, that, just as in 1899, the task is one of perfecting the structure on its old foundation, in order to maintain the maximum standard of efficiency of the bank. For it goes without saying that in order to keep up with the growing financial and economic requirements, an institution of such preeminent economic importance as the Reichsbank must continue to be capable of development and improvement.

The Reichsbank forms one of the principal supports of the German credit system and of German economic life at

large. In this capacity it has proved its value repeatedly, especially in the period of great depression at the beginning of the century. The collapse of a number of larger banks which until then had enjoyed a good reputation caused a profound shaking of confidence and threatened to precipitate a severe credit crisis. Such a crisis would have involved disastrous consequences for the entire business life of the country had not the Reichsbank at that time supported the tottering confidence by a liberal though at the same time prudent extension of credit.

According to the bank act the Reichsbank's primary function is to regulate the money circulation throughout the Empire, to facilitate settlements, and to provide for the employment of available capital. In particular the bank act defines the sphere of operation of the Reichsbank as follows:

1. To purchase and sell gold and silver in bullion and coins.

2. To discount, buy, and sell bills of exchange, running for not more than three months and bearing as a rule three signatures, but in no case less than two names of persons of well-known solvency. Furthermore, to discount, buy, and sell bonds of the Empire, of any German State or German municipal corporation, maturing at their face value within three months at the longest.

3. To grant interest-bearing loans for terms not longer than three months on transferable security (Lombard business), such as

(*a*) gold and silver, coined and uncoined; (*b*) interest-bearing bonds and other certificates of indebtedness,

made out to bearer by the Empire, German States, or German municipal corporations, and maturing within a maximum term of one year; interest-bearing bonds and other certificates of indebtedness made out to bearer, on which interest is guaranteed by the Empire or by any of the Federated States; fully paid-up stocks, common and preferred, and first-mortgage bonds of German railway companies in actual operation; also mortgage bonds of provincial, municipal, and other German land credit institutions subject to State control, or of German land mortgage banks, to an amount not exceeding three-fourths of their market value; bonds of said institutions or banks made out to three bearers and issued by reason of loans to German municipal corporations or against acceptance of a guaranty by such corporations.

(*c*) Interest-bearing bonds made out to bearer by non-German States, as well as foreign railroad prior-lien bonds guaranteed by the Government, in amounts not exceeding 50 per cent of their market value.

(*d*) Bills of exchange bearing the signatures of parties of recognized solvency, after deducting at least 5 per cent of their market value.

(*e*) On pledges of merchandise stored within the country, in amounts not exceeding two-thirds of its value.

4. To buy and sell debentures of the kind designated in section 3 (*b*); the business regulations for the Reichsbank directorate to prescribe to what extent the funds of the Bank may be invested in such paper.

5. To undertake collections for the account of private individuals, employees, and official bodies, and upon prior

security to make payments and to issue drafts on or transfers to its branches or correspondents on their account.

6. To purchase for outside account securities of all kinds and bullion, after proper security has been given, and to sell the same again after delivery to the parties has been effected.

7. To receive for deposit and on transfer account (*im Giro-Verkehr*) moneys, which are or are not interest bearing; the total amount of interest-bearing deposits must not exceed that of the capital and surplus of the Bank.

8. To accept valuables in account and trust.

With regard to the private note banks the bank act ordains that they may use their funds only for the transactions mentioned in sections 1 to 4, and as regards transactions mentioned in section 4 only to an amount not exceeding half the amount of their capital and surplus.

At the end of 1907 the Reichsbank had established in the German Empire, outside of the central office in Berlin, a total of 497 branches (Reichsbank main branches, Reichsbank branches, and Reichsbank sub-branches).

At the end of 1907 the books of the Reichsbank showed 18,616 shareholders. Of these 16,553 were German citizens, with 88,441 shares, and 2,063 foreigners, with 11,589 shares, in denominations of 3,000 marks each.

Legislation has not occupied itself much with the organization and field of operations of the credit banks, also called security banks (*Effektenbanken*), speculative banks (*Spekulationsbanken*), or flotation banks (*Emissionsbanken*). Repeated efforts to obtain legislative regulation

of the credit banks have caused some public discussion, but so far have met with no success.

The close relation of the so-called regular banking business to that of the floating of enterprises, the trading in and the issue of shares is typical of the organization of the German credit-bank system.

It is not my purpose to present an analysis of the structure and functions of the German credit banks, nor does space permit to attempt even a fairly complete sketch of the history of their development. What I propose is merely to indicate the general outlines of the credit organization and to emphasize those points of view which are necessary for the proper understanding of the statistical part.

Although the above-mentioned combination of the business of floating enterprises, the issuing of and trading in securities is a common feature of this type of banks, and most pronounced in the case of the large credit banks (the so-called "Grossbanken"), neither their field of operations nor their business policy shows the same uniform character as is shown by the banks of issue.

As a matter of fact, the various institutions show considerable variations in this regard, though it would be altogether impossible to point out these differences in detail in the present short sketch.

The business of industrial financing and stock issuing had been made part of the program of the oldest Grossbanken, founded as early as the middle of the nineteenth century. The model for these institutions was the Paris Crédit Mobilier, founded by Pereire Brothers, and it is

with good reason that the German institutions founded during those years are designated in banking literature as creations of the crédit mobilier system. These adaptations, however, can not be regarded as mere arbitrary transfers of the French system, but originated in answer to the real demands of German economic development.

The development of the railroad system beginning about the middle of last century, which caused a considerable demand for and circulation of capital, and the greater extension of state credit, induced the banks to turn to the flotation and issue business.

The period following the founding of the German Empire, as mentioned before, witnessed a vigorous development of German industry, especially of the mining and (beginning with the nineties) of the electrical industries, which required a continuous inflow of new capital. At the same time German foreign commerce, particularly with oversea countries, kept on steadily increasing. Under such conditions the economic policy of the banks of placing the funds entrusted to them at the service of the new development must be regarded as perfectly proper. The banks furthered this development by forming stock companies, granting long-term credit, assuming shares and bonds, placing the new industrials on the stock market and selling them to the public. There is no doubt that but for their policy of furthering the industries, the economic development of Germany would have taken considerably longer than has been the case.

It is true that the larger part of the increase in capital is the result of industrial production. But normally the

fresh increments of capital can be turned into industrial channels as reinvestments only through the medium of the banks.

This is particularly so in case of a capitalistic organization of society, in which the joint-stock corporate form of enterprise predominates.

The placing of capital in industrial investments proceeds as a rule as follows: The bank extends a certain amount of credit to the industrial corporation, which is used by the latter successively in proportion as its enterprise develops. Such "investment" credit, owing to its very nature and purpose, can not be refunded within a short time. It is granted from the start with a view to being converted into capital of the industrial corporation (through the increase of capital stock) or into long-term amortization credit (through bond issues). In order to repay its debt to the bank the industrial corporation issues new stock or bonds. The bank must for the time being take over the additional new securities by changing the "book-credit" into "issue-credit." This, however, enables it to shift the risk, assumed by the granting of the original credit, to the wider spheres of the investing public, and to recover, above all, the invested capital. Only in this manner can the bank retain its power of action, and it must be admitted that as a general rule the German banks have operated in this regard with great skill and circumspection, so that they were able both to meet their own obligations and to satisfy the demands for short-term working credit.

In order to obtain the means for granting industrial credit and to dispose of the enormous amounts of newly

created industrial securities, it was and is necessary to attract in as large a measure as possible the surplus funds of the community available for capital investments.

For this purpose the joint-stock banks spread a network of deposit branches, destined to serve as reservoirs for the inflow of available funds, and at the same time as distributors for the industrial securities created. With the same end in view the large Berlin banks, either through the acquisition or exchange of stock (for permanent investment), entered into friendly alliances with the provincial banks.

This latter development, representing a centralization of capital, though not of operation, is to be regarded as part of the general process of centralization applying to industry as a whole. It was particularly strong during the last decade, but seems to have abated somewhat during the last years.

The banking industry more than any other possesses the elements of concentration, since it operates practically without technical tools, is not bound to certain localities, and does not require expensive plants.

The concentration in the German banking system, the growth of the large joint-stock banks, and the extension of their sphere of interest by means of branches and deposit branches, and by their alliances with medium-sized and small banks in the provinces, was furthered by certain extraneous circumstances.

One of these was the stock exchange act of June 22, 1896, which, by restricting trading in options, secured considerable advantages to the strong, large banks at the

expense of the weaker banks or private banking firms. It is probable that this development received its first powerful impetus as early as 1891. At that time several private banking houses failed and these failures revealed, in a number of cases, the wrongful conversion of deposits. This caused deep commotion among wide circles. Public interest became aroused on the subject of bank deposits, and the amendment of the existing civil, criminal, and economic legislation was undertaken. The result was the bank deposit act of July 5, 1896. This did not, however, completely allay the suspicion once aroused, and the disastrous experience with small private bankers helped to no small extent to turn the confidence of the public more and more to the large joint-stock banks, which offer a much greater security for the money and securities entrusted to them.

The most important factor, however, was the fact of the simultaneous capitalistic evolution of industry proper, which necessitated a parallel development in the banking field. It goes without saying that this evolution, considered in its entirety, can not be ascribed to chance or the arbitrary action of individuals, but is largely the result of economic forces.

Operation on a large scale is not only best fitted for the so-called "heavy" industries (i. e., mining and the production of partially manufactured materials from the products of mines), but becomes a prerequisite for the economical management of these industries. Careful investigation has proved that in mining, for instance, the tendency of diminishing returns is concomitant with

increased cost of operation, since the increasing depth of the shafts requires an increasingly large capital, and the spread of mining in a region raises both prices of land and wages of labor. But this tendency of diminishing returns is counteracted and even turned into the opposite direction by technical improvements made possible by the progressive concentration of capital.

Technical and economic reasons were the cause which in the first instance led to the amalgamation of coal and iron works, particularly during the last years, and these same factors tend more and more to bring about the establishment of great consolidated works combining the production of the raw material with that of the half-finished and manufactured articles. This development would not be possible at all, or would meet with great difficulties, without a corresponding organization of the money and credit markets, i. e., without strong banks which are in a position to carry through the necessary financial transactions.

Developments of industry and banking showed the same tendency and mutually influenced each other to a large extent. It can not be said that the banks created the industries, since the funds which are gathered by the banks in increasing volume are mainly the result of the increasing productivity of capital invested in industrial undertakings. It is true however that the creative power which in a comparatively short time placed German industry in its present commanding position took its origin with the men who put to practical use and in the interest of economic progress of the nation the achievements and inventions in the domain of science and technique.

It is the undisputed merit of the persons at the head of the banks that they appreciated those endeavors and supported them by advancing the requisite capital, oftentimes incurring great risks for the banks. The entire development was, moreover, vigorously furthered by a commercial and tariff policy favorable to industry, though it must be said that this policy was abandoned to a certain extent with the new customs tariff of 1902, the revision of the tariff and the renewal of our commercial treaties having been undertaken and carried out under the motto "Greater tariff protection for agriculture."

It is almost self-evident that the banks, which in carrying out their policy of furthering industry had often to assume considerable risks, have tried to secure, and in a large measure have succeeded in securing, a lasting and decisive control over industrial corporations.

This decisive influence of the banks on the industries reaches further than the mere possession of shares of industrial undertakings would warrant, as it is an easy matter for the banks to procure for stock-holders' meetings proxies of the shares which their customers have deposited with them. The result is that in many cases, the banks appear to wield a controlling power over the industrial corporations. The close relationship between the banks and industries finds expression also in the filling of places on the supervisory boards of directors.

As members of the boards of directors of industrial corporations the bank directors are at all times in a position to guard the interests of the banks, particularly by super-

vising the systematic and rational employment of the credit granted by the bank to the corporation.

On the other hand, in order to create and maintain friendly relations between the banks and industrial corporations, the directors of the latter are given places on the supervisory boards of the banks.

Such a condition of affairs may not reveal itself statistically to outsiders, but there can be no doubt that the bond between the bank and the industrial undertaking is thus made closer than by the mere stock control of the bank, which in most cases is not very large.

The progressive industrialization of Germany and the large increase of its population caused on the one hand increasing imports of industrial and auxiliary materials as well as of foodstuffs, and on the other steadily growing exports of industrial products. As a result Germany's share in the world's commerce shows a rapid growth.

Until the seventies of the last century the financial regulation of German foreign oversea trade had been almost exclusively in the hands of London banks. The establishment in 1870 of the Deutsche Bank at Berlin meant a turning point in this regard. The Bank in its charter adopted the following program: "It is the purpose of the corporation to do a general banking business, particularly to further and facilitate commercial relations between Germany, the other European countries, and oversea markets." The founders of the Deutsche Bank had recognized that there existed in the organization of the German banking and credit system a gap which had to be filled in order to render German foreign trade independent

English intermediary, and to secure for German commerce a firm position in the international market. It was rather difficult to carry out this program during the early years, the more so, because Germany at that time had no gold standard and bills of exchange made out in various kinds of currency were neither known nor liked in the international market. The introduction of the gold standard in Germany in 1873 did away with these difficulties, and by establishing branches at the central points of German oversea trade (Bremen and Hamburg) and by opening an agency in London the Deutsche Bank succeeded in vigorously furthering its program. Very much later the other Berlin joint-stock banks, especially the Disconto Gesellschaft and the Dresdner Bank, followed the example of the Deutsche Bank, and during the last years particularly the Berlin joint-stock banks have shown great energy in extending the sphere of their interests abroad.

As regards the organization of the oversea business, the only foreign place where the banks have established agencies (apart from the branches in the German export cities, Bremen and Hamburg) is London. Agencies which the Deutsche Bank had established in Shanghai and Yokohama in the early seventies had soon to be liquidated by reason of considerable losses in exchange due to the depreciation of silver. For the express purpose of promoting foreign trade, the banks established subsidiary banks with the main offices in Germany (Berlin and Hamburg); these banks in their turn established agencies in oversea countries. The entire or almost the entire capital

stock of these subsidiary banks is in the possession of the parent banks. The Berlin joint-stock banks, moreover, have become permanently interested in foreign banks and banking houses; they have also founded transportation, mining, and industrial enterprises whose sphere of activity is mostly abroad, and in which they acquired a permanent interest by taking over part of the capital stock.

The above account of the organization of the German credit-bank system, though somewhat sketchy in character, demonstrates, however, with sufficient clearness that the managers of the German credit banks, and particularly of the leading Berlin banks, have made constant and successful endeavors to place the banks in the service of German trade and industry and to accommodate the organization of the credit system to the variable and growing demands of national economic development. There can be no doubt that they have had a large share in raising German commerce and industry to its present world-wide commanding position.

It is thought that the above brief sketch of the organization and operations of the joint stock credit banks has shown with sufficient clearness among which classes of the population and in which vocations are found the persons who apply for credit and whose demands for credit are met by the above-named institutions. Among the customers of the credit banks figure chiefly members of the commercial and industrial classes, who obtain from these banks both their long and short term credit, and in the second place holders of medium-sized and large agricultural property, who apply to them for short-term

"operation" credit. The credit demands of the members of the small-farm class and of the small independent producers are generally met by the cooperative credit societies.

The development of the system of cooperative societies has made great progress during the last decade. At the end of 1906 there existed in Germany 15,602 cooperative credit societies (*Kreditgenossenschaften*), which represented an extensive credit organization, with numerous unions and associative centers. These centers are: Die Preussische Central-Genossenschaftskasse, in Berlin; die Landwirtschaftliche Genossenschaftsbank, in Darmstadt; die Landwirtschaftliche Central-Darlehnskasse, in Neuwied; and der Allgemeine Verband der Schultze-Delitz'schen Genossenschaften, for which the Dresdner Bank, after absorption of the Deutsche Genossenschaftsbank, acts as central office. In order to illustrate the volume of business and of credit operations transacted through the cooperative societies, it may be mentioned that the 5,685 cooperative societies which were allied with the Prussian Central-Genossenschaftskasse had, at the end of 1906, funds of their own to the amount of 54,000,000 marks and deposits to the amount of 758,000,000 marks which were available for credit transactions, and that 1,016 Schultze-Delitzsch societies at the close of 1906 had a membership of 598,314, a combined capital of 273,000,000 marks, and 983,000,000 marks of deposits; together 1,256,000,000 marks, of which 1,056,000,000 marks were loaned to members.

It is only through the medium of the central offices mentioned that the classes of the population united in

the societies are able to come into business contact with the centers of the money and capital market. There can be no doubt that the cooperative credit societies have been of great benefit to these classes.

As regards the credit on landed property there is hardly a country with an organization as perfect as Germany. The beginning of this organization dates back about one hundred and thirty years. The Prussian State had emerged from the storms of the Seven Years' war (1756–1763) as a recognized European power, but the sacrifices of the years of war had completely exhausted the country. The indebtedness of the landed gentry in Prussia had grown considerably, because payment of the old debts had been deferred for years past and every landed proprietor had, under the pressure of conditions, used the maximum of credit that it was possible for him to obtain. The debt burden had become even more pressing by reason of usurious exploitation of the plight of the debtors.

As the landed nobility was then the principal support of the State and was so regarded by the Government, it became a matter of public interest to relieve the financial distress of the landed proprietors by enabling them to pay off systematically their mortgage debts.

The efforts in this direction, in which the Prussian King, Frederick the Great, personally took an active part, led to the creation of the land-mortgage associations (*Landschaften*), which must be considered the first important step toward the organization of land credit.

The provincial (*landschaftliche*) and landed proprietors' (*ritterschaftliche*) credit institutions, generally known by

the short term "*Landschaften,*" are associations endowed with the rights of a corporation and operating under state control. Their boards of directors have the attributes of official authority. They are autonomous institutions within the limits set by the state supervision. The general features of their organization are practically identical.

As regards the basis of the land credit, it follows from the very cooperative conception that each member of the land-credit association is entitled to obtain credit within the limits fixed by the charter. At first these associations were composed exclusively of members of the landed nobility. In the beginning of the nineteenth century, however, when, among other numerous constitutional changes, the feudal dependence of the peasantry was abolished and they were enabled to acquire land in fee simple, the "*Landschaften*" gradually extended their operations so as to include the small peasant holdings or they organized for this purpose separate credit institutions (so-called "*Neue Landschaften*").

The Landschaften obtain the funds for the granting of credit through the issue of letters of mortgage or mortgage bonds—i. e., as a rule, the borrowers receive the loan in the shape of mortgage bonds of the association, and it is left to them to negotiate these bonds on the stock exchange. At first the letters of mortgage were made out on a certain estate (estate debentures). But as the purchaser of such letters of mortgage was forced to keep watch over the condition and management of the mortgaged estate—even though the association itself main-

tained permanent control of the debtor—the sphere of circulation and the ease with which these bonds could be sold were naturally limited.

It was only when the issue of corporate mortgage bonds was started, the security of which was guaranteed either by the entire mortgage claims of the association or the collective responsibility of their members, and when these bonds were given a large market through their admission to exchange transactions, that the highest degree of mobilization was reached.

The mortgage bonds are secured in the first place by the mortgage claims of the association, furthermore by the association funds proper as well as the guaranty or reserve funds, and the amortization funds or the equivalent book credits in favor of the debtors. In the case of the older associations the joint guarantee of the members is added, whose estates are jointly liable for claims against the association. In eastern and western Prussia, Silesia, and Pomerania all estates on which association mortgages may be obtained are jointly liable, no matter whether they are mortgaged or not. In Silesia the joint liability extends, moreover, to the state domains, and in eastern Prussia to the state domains and forests. Wherever the joint liability is not found, a substitute has been created through the forming of special guaranty funds. At any rate the land association mortgage bonds are considered first-class investment securities, which finds expression in the fact that they may be used for the investment of trust funds. The land-mortgage associations deserve this public confidence. During a period of more than one hundred

and thirty years the cooperative land-credit system has rendered effective service under very difficult conditions, proving of great benefit to the agricultural classes.

The progress of industrialism in Germany during the last three decades of the last century caused a steadily growing influx of population into the industrial centers. Only the cities profited by the steady increase in population. The growing demand for dwellings was accompanied by a rapid rise in value of city grounds; hence the necessary construction of dwellings required larger amounts of capital than were at the disposal of the individual builders.

It was mainly to meet the needs of credit on urban real estate that mortgage banks (*Hypothekenbanken*) were created, and thus a special organization of city real estate credit was formed. The greater number of the mortgage banks now in existence was founded during the decade 1862 to 1872; practically all the others were founded during the building boom of 1894–1896. Most of the mortgage banks cater exclusively to the demand for real estate credit; some others combine this specialty with other lines of banking.

While the land-mortgage associations are based on the principle of cooperation and do not pursue a profit-making policy, the mortgage banks have been founded as joint-stock companies. The capital stock serves as working capital as well as guaranty fund.

Bonds are issued against acquired mortgages and secured by the latter. Almost all these banks issue their bonds to bearer, a privilege granted them by the State;

only two small institutions, which have not been granted this privilege, issue bonds in the name of individuals which are transferable by blank indorsement. The bonds of the mortgage banks are known legally as "mortgage bonds" (*Hypothekenpfandbriefe*), in contradistinction to the bonds issued by the land-mortgage associations.

Inasmuch as the bonds are held in many cases by small investors, the State, in order to protect the interests of these bondholders, from the very beginning secured to itself the right of control, limiting at the same time the field of operation of these banks by certain legal enactments and regulations.

No fault can be found with this policy, as a matter of principle. In the first decades, however, the development of the mortgage banks (particularly in Prussia) was greatly hampered by legal restrictions and was forced in a certain direction with disastrous consequences which were to be felt for a long time to come.

In order to illustrate these legal provisions, it may be mentioned that until 1894 the Prussian mortgage banks, in appraising a piece of ground upon which a loan was to be granted, were bound to take as a basis the valuation for the land tax. This valuation in turn was based on the rentals during a period dating back ten to fifteen years, being consequently much too low. On the other hand, in the case of new buildings, the valuation could be influenced by the credit-seeking landlord through exaggerated statements regarding the rentals.

In the old quarters of a town, where values were stable, the Prussian banks subject to restrictive state regulation

could not, therefore, compete with other mortgage banks not subject to such regulations, whereas their loans in the outlying districts, where most of the new buildings were going up, were of necessity too high.

In spite of every effort the mortgage banks subject to the Prussian restrictive provisions were unable to develop in the measure they might have without the fetters of official loan limitations or as was expected by the shareholders, bondholders, and the credit-seeking property owners. The defects of this system caused the failure of a number of these institutions even as late at 1901.

Toward the end of 1893 the old restrictive provisions were at last abolished and replaced by new ones. The general effect of these new provisions was a much stricter regulation of the operations of the mortgage banks and a greater limitation of their field of activity. In spite of all this, the new provisions were much to be preferred to the former, for they comply with the practical results of mortgage-bank operations. The greatest improvement, however, over the older state of affairs was that the regulations provide a rational basis for the main function of the mortgage banks, i. e., that of ascertaining the value of and securing loans on real estate, instead of compelling them as formerly to use in a purely mechanical manner the oftentimes untrustworthy valuations of the tax authorities.

As the increasing economic importance of the mortgage banks came to be recognized and appreciated, it was found that most of the German Federal States had not issued general enactments for the business operations of banks of that type and that the only regulations were

those contained in the charters of the individual banks. The imperial mortgage bank act of July 13, 1899, created accordingly a uniform legal basis for the business of the mortgage banks. Only the supervision of the mortgage banks was left to the various Federal States. In Prussia the highest supervisory office is the Ministry of Agriculture, Domains, and Forestry, and the actual supervision is exercised by bank inspectors, who continuously control the business affairs of the Prussian mortgage banks and report to the Minister of Agriculture. In the other German Federal States government control is exercised by a government commissioner appointed for each bank. These government commissioners, however, exercise their control as a secondary office only, whereas the bank inspectors' chief function is that of bank control.

The imperial mortgage-bank act of July 13, 1899, debars the ordinary commercial partnerships, limited partnerships, limited liability companies, incorporated cooperative societies, and individuals from doing a mortgage-bank business, or from issuing mortgage bonds. Stock companies and limited joint-stock companies "en commandite" may engage in this business only with the sanction of the federal council. In case the charter of a mortgage bank provides that mortgage loans shall be granted only within the confines of the Federal State where the bank is located, the granting of the charter is left to the authorities of the respective Federal State. Besides the granting of mortgage loans and the issue of mortgage bonds the business of the mortgage banks is limited to the following transactions:

1. The acquisition, transfer, and grant of mortgage loans.

2. The granting of loans without hypothecary security to public corporations within the country, or to third persons in cases where the loan is fully guaranteed by such corporation; also the issue of bonds based on such claims.

3. The granting of loans to domestic railroad enterprises of local interest (*Kleinbahnunternehmungen*) against hypothecation of the railroad, and the issue of bonds based on the claims thus acquired.

4. The purchase and sale on commission of securities, with the exception of "futures" (*Zeitgeschäfte*).

5. The acceptance for deposit of money or other objects, with the provision, however, that the total amount of the funds deposited must not exceed one-half of the paid-in capital.

6. The collection of bills, drafts, and similar paper.

Those mortgage banks which, before the promulgation of the bank act, had been engaged in other lines of banking were permitted to retain this privilege. The mortgage banks may issue mortgage bonds up to fifteen times the combined amount of the paid-in capital and surplus. The latter is to serve exclusively to secure losses shown in the balance sheet or the claims of bondholders. Inasmuch as the issue of these bonds by the various banks prior to the bank act had been based upon various other principles, the actual ratio between capital stock and mortgage-bond circulation differs for each bank.

The total amount of the circulating mortgage bonds must always be secured up to its nominal value through mortgages of at least equal amount and bearing at least an equal rate of interest. Loans may be made only on prop-

erties within the country and, as a rule, only in the shape of first mortgages. Loans must not exceed three-fifths of the value of the property.

For loaning purposes the carefully ascertained market value of the property is taken. In ascertaining this value only the lasting qualities of the property are to be considered and the continuous revenue which the property is likely to yield to any owner under management of ordinary care. As regards mortgages on building sites and unfinished buildings which yield no revenue, it is provided that their combined amount must not exceed one-tenth of the total amount of mortgages on which bonds have been issued nor one-half of the paid-in capital. Moreover, mortgages on properties which do not yield a permanent revenue, particularly on pits and quarries, are excluded from being used as security for mortgage bonds.

The mortgages destined as security for the mortgage bonds must be separately recorded by the bank in a register. Every mortgage bank has a trustee. The trustee (as a rule a higher government official) must see to it that the prescribed security for mortgage debentures is always on hand; but in so doing it is not his province to inquire whether the accepted value conforms to the actual value of the property, provided only that the value of the property offered for mortgage has been determined in the manner sanctioned by the supervising authorities. Every mortgage bond when issued must bear his certificate that it is properly secured and that the prescribed entry on the register has been made of the underlying mortgage or

mortgages. He has also the custody of the documents pertaining to the registered mortgages. In certain cases he may accept and register as additional security valuable paper other than mortgages. In case of failure of a mortgage bank, the bondholders have a prior lien upon the mortgages and other valuable paper recorded in the register.

The mortgage-bank act of the year 1899 regulated the mortgage-bank system in a way that may well be considered exemplary. While leaving sufficient freedom to the mortgage banks in the discharge of their important economic task of meeting the demand for real-estate credit, it also affords adequate protection to the holders of the mortgage bonds. The result has been that confidence in the security of the mortgage bonds has become more general and deep-rooted, so that mortgage bonds are generally considered first-class investment securities, as may be seen from their exchange quotations.

The failure in 1901 of a few mortgage banks was in the last instance due to defects which could be traced back to the old Prussian restrictive provisions. The confidence of the public in mortgage bonds has not been shaken thereby.

The organization of real-estate credit in Germany, on the whole, may be considered completed. It has proved its value and has made possible the achievement of important economic tasks. Next to the above-mentioned real-estate credit institutions (mortgage banks and land-mortgage associations) the savings banks and the insurance companies play an important rôle in the field of real-estate credit; moreover, the loans on mortgages granted by pri-

vate capitalists are by no means inconsiderable. The latter alone are estimated at 20 to 25 billion marks. The amounts in question are mostly entered as second liens after the mortgages in favor of land-mortgage associations, mortgage banks, savings banks, and insurance companies, since almost all of the institutions named make it a condition to have a prior lien and do not, as a rule, grant loans in excess of 60 per cent of the property value.

Among the assets of the insurance companies mortgages represent by far the larger share. About 80 per cent of the premium reserves of these companies are invested in mortgages.

(2) STATISTICAL SECTION.

(*a*) GENERAL REMARKS REGARDING THE BASIS AND THE SCOPE OF THE STATISTICAL DATA.

The statistical tables[a] illustrating the development of the German banks during the last twenty years are based on the annual reports, as well as on the balance sheets and the profit-and-loss accounts of the institutions in question. With the exception of the land-mortgage associations, whose legal constitution has been explained above, the banks considered are with a few exceptions stock corporations.

According to the provision of the Commercial Code the board of directors of a stock company must, within three months, submit to the supervisory council a balance

[a] The detailed tables referred to in the text are included in the volume of "Statistics for Great Britain, Germany, and France" published by the Commission. See especially "Statistics for Germany," Part II, Tables 13–22.

sheet for the year past, also a statement of profits and losses, and a report showing the conditions of the funds and the general state of affairs of the institution. These documents accompanied by the written remarks of the council are then submitted at the stockholders' meeting within the same period. The charter of the company may state another term, but in no case must this term exceed six months.

In the preparation of the balance sheet, the following general provisions have to be observed: Securities and merchandise having an exchange or market price must not be listed above their exchange or market price prevailing at the time the balance sheet is made up; in case this price exceeds the cost they must not be listed above this cost.

Other assets may be valued at prices not higher than the cost of purchase or manufacture. Plants and other objects not destined for sale, but which are to be employed permanently for the operation of the businesss of the company, may be listed at cost of purchase or production regardless of diminution in value, provided an equivalent amount is deducted for depreciation or charged to the renewal fund. A reserve fund must be created in order to cover any possible losses shown in the balance sheet. This reserve fund is made up of the following items:

1. An annual amount equal at least to one-twentieth of the annual net profits as long as the reserve fund does not exceed the tenth part of the capital or whatever higher proportion has been provided in the charter of the company.

2. The premiums realized on the occasion of the foundation of the company or of the increase of its capital through the issue of stock at a price or prices in excess of the combined nominal value of said stock and the expense involved in such issue.

3. The amount of additional payments contributed by shareholders without increasing the capital—for the granting of preference rights to their shares, unless these payments are to be used for extraordinary sinking funds or to cover unusual losses.

After approval by the stockholders' meeting the balance sheet, as well as the statement of the profit-and-loss account, must be published by the board in the periodicals mentioned in the charter of the company. This duty of publishing their reports devolves both on joint-stock companies as well as on limited liability companies doing a banking business. The limited liability companies, however, as well as the small joint-stock banks, fulfil these duties very often in a very unsatisfactory manner, the more so because the fines for the violation of the above rule are but slight. They do not publish annual reports proper, and very often even omit the required publication in the prescribed newspapers of the balance sheets and the profit-and-loss statements.

Although considerable effort has been made to make the present study as complete as possible and every care has been taken to procure the required material, it is yet possible that, particularly for the more remote years, some smaller institutions may have been omitted. These

omissions hardly affect, however, the general outline, as the institutions in question are but small and unimportant. The corporate banks with a capital of 1,000,000 marks and over have all been treated in the statistics for the last twenty years, and beginning with 1895 all, even the smallest, joint-stock banks are included. The statistics for the issue banks, as well as for the mortgage banks, are also complete for the full period.[a]

The tables present a statistical view of the development during the last twenty years of German banking in the form of joint-stock companies and limited liability companies. The compilation covers a wider scope than has ever before been attempted in Germany, although it does not include data regarding the business of private banking firms. The number of these firms for the country as a whole is still considerable (about 6,000), notwithstanding their continuous absorption by the joint-stock banks. There are only a few whose importance approximates that of a fair-sized joint-stock bank, and perhaps only two old Berlin banking houses (Mendelsohn & Co. and S. Bleichroeder & Co.) that have been able to retain a large clientele and which may be placed alongside the large joint-stock banks, particularly in the field of large financial and issue operations. The public is absolutely uninformed as to the amount of capital invested in these banking houses, as no reports have ever

[a] At this point I desire to acknowledge the valuable assistance rendered by the economic department of the Deutsche Bank, particularly by its head, Doctor Fuchs, through the loan of voluminous older data, which it would have been very difficult and in some cases impossible to procure elsewhere. The detailed tables are to be found in the "Statistics for Germany." See especially Part II, Tables 13–22.

been published by them. This general reference to the existence of private banking houses and to their decreasing importance as compared with that of the joint-stock banks must therefore suffice; a statistical presentation is not possible.

Finally, it must be mentioned that there are in existence a few communal and government banking institutions which have not been included in these statistics. The municipal and provincial banking institutions serve primarily the credit needs of their respective public corporations by underwriting and issuing their loans; they also devote themselves (as the Landesbank of the Rhine Province and the Landesbank of the Province of Westphalia) to land-credit operations in the interest of the agricultural population of their territories.

More important is the so-called Royal Maritime Trading Company (*Königliche Seehandlung*), a state institution with a capital of 100,000,000 marks. About 4,500,000 marks of its capital is invested in industrial establishments, flour mills, linen weaving, and a loan office. Its principal activity, however, is in the field of underwriting, notably of state, imperial, and communal loans. Its special task is to regulate the exchange quotations of the Prussian state loans and of the imperial loans. The oftentimes considerable amounts entrusted to it by the Prussian and imperial financial administrations as well as by other public bodies are as a rule used by the Bank for private discount business or for term-loan operations (*Reportgeschäft*).

(*b*) THE NOTE-ISSUING BANKS.

As may be seen from the tables the number of the German note-issuing banks decreased from seventeen to five in the period from 1888 to 1905, since which date the number remained unchanged. The centralization of the note-issue system may be considered at present almost completed. This is in accord with the tendency which has been consistently pursued since the establishment of the Reichsbank. Immediately after the promulgation of the bank act twelve private note banks relinquished the right to issue notes. The tax-free note contingent of these banks amounted to a total of 21,589,000 marks. Pursuant to the provisions of the bank act the tax-free note contingent of the Reichsbank was on January 1, 1876, increased by this amount from 250,000,000 to 271,589,000 marks. Through the surrender of the issue privilege of thirteen more private note banks the contingent of the Reichsbank increased to 293,400,000 marks by January 1, 1894. The supplementary bank act of July 7, 1899, increased the contingent of the Reichsbank to 450,000,000 marks, and following the surrender of the note issue privilege by three additional private note banks the tax-free contingent of the Reichsbank increased to 472,829,000 marks by the end of 1905.

Besides the Reichsbank, there are at present the Bank of Baden, the Note Bank of Bavaria, the Bank of Saxony, and the Note Bank of Württemberg, whose combined tax-free note contingents amount to a total of 68,771,000 marks. Only the Bank of Saxony and the Note Bank

of Bavaria are of any importance, as they were able to maintain an extensive sphere of activity in the varied and intensive economic life of their regions. It is not likely that these institutions will renounce the right of note issue within the near future, or that at the pending revision of the bank act the note privilege will be withdrawn from the private note banks still in existence.

The issuing of notes is the most important debit business of the note banks. As has been stated above, the issue of notes is subject to the limitations of the so-called "indirect contingent," i. e., the note circulation which exceeds the tax-free note contingent is taxed at the rate of 5 per cent per annum. At least one-third of the amount of notes issued must be secured by current German metallic money, imperial treasury notes, and gold in bars or foreign coins. The purpose of these provisions is to compel the banks to maintain a sound ratio between cash reserves and note circulation, to prevent an excessive increase of unsecured notes and to insure the redemption of the notes. This same purpose is pursued by the provision that the part of the note circulation which exceeds the cash reserve must be secured by discounted bills maturing in not more than three months and for which as a rule three, but not less than two parties of known solvency stand sponsors.

As may be seen from the tables below, the note circulation of all note banks, particularly of the Reichsbank, has steadily increased, while the cash reserves, and, as a result, the proportion of the cash reserves to note circu-

lation, have been subject to large fluctuations. This proportion for the last twenty years was as follows:

PROPORTION OF CASH RESERVES TO NOTE CIRCULATION, 1888–1907.

Close of year—	Reichsbank.	Other note banks.
	Per cent.	*Per cent.*
1888	80.1	53.2
1889	66.7	55.1
1890	71.0	58.5
1891	83.0	58.4
1892	76.1	58.4
1893	74.4	55.0
1894	85.9	57.1
1895	66.5	56.2
1896	66.2	52.6
1897	64.6	55.6
1898	57.5	58.4
1899	53.0	53.5
1900	53.9	52.8
1901	61.2	56.0
1902	53.7	56.2
1903	51.9	57.0
1904	59.6	54.3
1905	49.6	51.7
1906	40.6	50.6
1907	41.2	53.5

This percentage, while fairly constant in the case of the other note banks, shows a downward tendency for the Reichsbank. For the latest years this ratio has been even lower for the Reichsbank than for the other banks of issue. This phenomenon is due to the fact that it is only the Reichsbank which maintains an intimate connection with the entire economic development of the nation by meeting both the currency demands for domestic use as well as the requirements for the settlement of international obligations.

The metallic reserves, which represent the greater part of the cash reserves, were composed as follows:

COMPOSITION OF METALLIC RESERVES OF REICHSBANK, 1888–1907.

[In thousands of marks.]

Year.	Gold.		Silver, nickel, and copper.		Per cent share of silver thalers alone in the entire metallic reserves.
	Yearly average.	Per cent.	Yearly average.	Per cent.	
1888	608,281	67.3	295,122	32.7	24.3
1889	584,433	67.1	287,159	32.9	24.6
1890	519,101	64.8	281,918	35.2	26.4
1891	589,841	66.0	303,948	34.0	25.3
1892	615,942	65.4	326,132	34.6	24.8
1893	526,531	62.6	315,192	37.4	26.9
1894	619,609	66.3	314,719	33.7	23.7
1895	704,559	69.6	307,204	30.4	21.5
1896	602,009	67.5	289,979	32.5	22.9
1897	591,601	67.9	279,849	32.1	22.8
1898	583,288	68.5	267,650	31.5	22.2
1899	572,826	69.4	252,654	30.6	21.1
1900	570,732	69.8	246,405	30.2	20.2
1901	664,070	72.9	247,341	27.1	16.4
1902	725,462	73.9	256,740	26.1	13.4
1903	650,796	71.9	254,151	28.1	18.4
1904	682,202	73.9	244,467	26.4	16.0
1905	745,277	76.6	227,682	23.4	9.6
1906	674,734	75.7	210,231	24.3	6.7
1907	633,831	75.2	209,509	24.8	2.3

The gold reserve proper, as well as the total cash reserves, have naturally been subject to very large fluctuations, but the proportion of gold to the entire metallic reserve has increased. Until 1905 the metallic reserve (gold excluded) consisted largely of silver thalers which were legal tender to the same extent as gold. But beginning with September 30, 1908, these coins have been withdrawn from circulation. Of late 3-mark silver pieces have been

coined, which are, however, mere subsidiary coins, like the other silver coins, and as such may be tendered in payment only to the amount of 20 marks.

When the Reichsbank was established, not quite half of the German money circulation consisted of gold, the standard metal. Accordingly, the Bank had to assist in the general reform of the German currency. Its principal aim had to be to attract from abroad and to put into circulation the largest practicable quantities of gold. It has always been the Reichsbank's policy to satiate the channels of circulation with gold as much as possible, with the result that the per capita gold circulation in Germany is much larger than in any other country.

It should be mentioned, however, in this connection that according to the findings of the bank commission a large quantity of German gold coins is melted every year for use in the arts. Only in recent years, owing in some degree to the money stringency, the contrary tendency has been noted. By issuing bank notes of small denominations (50 and 20 marks) the Reichsbank is endeavoring to draw gold from domestic circulation into its treasury in order to increase its efficiency, since, as mentioned repeatedly, it may issue notes to an amount triple the amount of its gold reserve.

Gold imports from abroad are regulated by the balance of international payments and the prevailing exchange rate as its expression. The most important and, in the last instance, only efficient means which the Reichsbank has of encouraging gold imports and discouraging gold exports is its discount policy. Furthermore, it facili-

tates gold imports by interest-free advances to gold importers.

The notes which are not secured by cash form the elastic portion of the currency circulation, and the changes and fluctuations of that part of the note circulation which is not secured by cash reflect best the fluctuating demands of currency made upon the note banks. The following table shows the change in the note circulation of the Reichsbank which is not secured by cash:

UNCOVERED NOTE CIRCULATION OF REICHSBANK, 1888–1907.

[In thousands of marks.]

Year.	Average amounts.	Maximum amounts.	Difference between maximum and minimum amounts.
1888 [a]	1,025	209,942	380,572
1889	85,760	396,058	487,635
1890	152,084	392,232	380,675
1891	46,107	259,789	326,819
1892	8,672	275,353	414,914
1893	108,815	330,635	388,922
1894	30,639	233,114	306,509
1895	50,164	441,683	619,447
1896	158,190	427,547	451,230
1897	180,374	499,234	523,133
1898	238,708	576,355	604,458
1899	281,129	664,633	594,106
1900	284,711	649,317	537,729
1901	243,075	568,608	525,034
1902	211,443	701,639	743,027
1903	306,210	744,953	642,947
1904	316,486	775,044	663,840
1905	316,466	920,285	959,256
1906	438,461	1,045,476	919,340
1907	531,056	1,098,805	850,563

[a] In 1888 the note circulation was, on an average, more than sufficiently secured, owing to large gold imports from abroad.

It may be seen from the above table that the unsecured note circulation of the Reichsbank has increased almost

year by year. This increase has been continuous for the last ten years and it may be said that the credit demands made upon the Bank had to be met to an increasing extent by issues of unsecured notes and the fuller utilization of its cash reserves; the maximum in this regard was reached in 1907, when as the result of the general stringency in the international money market the circulation issued by Reichsbank very nearly touched the one-third cash limit fixed by law.

The above remarks on the note circulation and the legal cash reserve do not give a correct picture of the actual position of the note banks. The "daily maturing liabilities" made up of non-interest-bearing commercial deposits on transfer (*giro*) account considerably change the picture. These constitute the bulk of deposits with the note banks. The relative importance of the interest-bearing deposits, which may be withdrawn only on preliminary notice, is of some account only in the case of a few private note banks.

The ratio between cash on the one hand and notes and deposits on the other developed as follows:

PERCENTAGE OF CASH TO NOTES AND DEPOSITS, 1888–1907.

Close of year—	Reichsbank.	Other note banks.
	Per cent.	*Per cent.*
1888	67.7	41.7
1889	52.6	45.0
1890	54.1	48.1
1891	61.3	48.6
1892	57.0	48.1
1893	56.8	45.9
1894	63.2	45.5
1895	49.9	45.2
1896	48.6	43.1
1897	43.0	45.1

PERCENTAGE OF CASH TO NOTES AND DEPOSITS, 1888–1907—Continued.

Close of year—	Reichsbank.	Other note banks.
	Per cent.	*Per cent.*
1898	43.5	46.2
1899	39.1	41.7
1900	40.0	39.7
1901	44.0	42.0
1902	39.4	40.2
1903	37.9	41.7
1904	43.6	39.4
1905	35.9	38.2
1906	29.6	38.8
1907	30.5	39.7

Here again it must be stated that this ratio, while fairly stationary for the private note banks, has shown a downward tendency as far as the Reichsbank is concerned. For the more recent years particularly this ratio has been lower for the Reichsbank than for the private note banks.

There is, of course, the theoretical possibility of a simultaneous withdrawal of all giro deposits, but in practice such a case may be considered out of question even in case of war. In the latter case the need of the Reichsbank to business men would be larger than ever and the latter are not likely to withdraw their deposits beyond the stipulated minima, as this would be tantamount to the closing of the transfer accounts. The combined amount of these minimum deposits is unknown; at all events, it is much lower than the total daily demand liabilities. The latter contain also the credit balances of the financial administrations of the Empire and the Federal States, which at times represent very large amounts, and are estimated to constitute approximately 30 per cent of all the deposits.

Statistical investigation demonstrates a considerable increase in the volume of transfer transactions within the more recent years, accompanied by a larger use of the deposits on the part of the giro depositors. It appears particularly that the average of balances on giro account has increased far less than the average volume of transfers from and to these accounts. The Reichsbank, therefore, during the fall of 1906 felt compelled to adopt new requirements for its minimum deposits. It was proven that while the average amount of giro deposit had increased 34 per cent within the decade 1898–1907, the volume of transfers on account of these deposits had grown 88 per cent during the same period.

It is true that the Bank pays no interest on these deposits, regarding the free use of the deposits as the equivalent for the expense caused by the transfer operations on account of these deposits. But with the growth in volume of these operations the expenses of the Bank also increase, and the requirement of the Bank of an adequate minimum limit of deposits seems therefore fully justified. Another, though less important, reason which made the change desirable was that by increasing these minimum requirements the operating basis of the Bank was strengthened, in the sense that an increase of giro deposits was tantamount to a strengthening of its cash reserves, which in turn enabled it to increase its note circulation by the threefold amount of such increase. It is but proper to mention in this connection that the giro accounts need not be fully made in the form of specie. As a matter of fact, these accounts quite often are the result of credit operations, in case, for instance, the values of discounted bills or of loans upon collateral are not

paid in cash, but merely credited to the respective accounts. The total volume of bank transfers (giro transactions) effected by the Reichsbank shows the following development:

TRANSFER TRANSACTIONS OF REICHSBANK, 1888–1907.

	Marks.
1888	63, 825, 000, 000
1889	75, 676, 000, 000
1890	79, 750, 000, 000
1891	81, 013, 000, 000
1892	78, 215, 000, 000
1893	82, 363, 000, 000
1894	84, 450, 000, 000
1895	93, 698, 000, 000
1896	105, 603, 000, 000
1897	115, 308, 000, 000
1898	137, 784, 000, 000
1899	155, 987, 000, 000
1900	163, 632, 000, 000
1901	167, 729, 000, 000
1902	169, 216, 000, 000
1903	179, 118, 000, 000
1904	194, 548, 000, 000
1905	222, 137, 000, 000
1906	245, 622, 000, 000
1907	260, 657, 000, 000

The various modes of settlement appear from the following table:

Year.	Through cash payments.	Through balancing of accounts.	Through local transfer.	Through transfer from and to other cities.	Total without cash payments.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1888	28.0	7.2	35.5	29.3	72.0
1889	26.9	7.0	38.1	28.0	73.1
1890	27.9	8.2	37.7	26.2	72.1
1891	27.7	8.3	37.9	26.1	72.3
1892	27.0	7.7	37.3	28.0	73.0
1893	19.4	28.5	25.3	26.8	80.6
1894	19.1	26.5	26.1	28.3	80.9
1895	18.2	26.4	26.9	28.5	81.8
1896	18.5	27.2	26.1	28.2	81.5
1897	18.1	26.5	26.4	29.0	81.9

Year.	Through cash payments.	Through balancing of accounts.	Through local transfer.	Through transfer from and to other cities.	Total without cash payments.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
1898	16.6	26.8	27.7	28.9	83.4
1899	16.3	25.7	28.8	29.2	83.7
1900	16.8	23.0	29.5	30.7	83.2
1901	16.8	21.9	30.0	31.3	83.2
1902	16.3	21.5	30.3	31.9	83.7
1903	16.9	21.0	31.1	31.0	83.1
1904	16.7	21.1	31.3	30.9	83.3
1905	15.7	21.6	32.4	30.5	84.5
1906	15.3	22.4	32.7	29.6	84.7
1907	15.4	22.4	33.4	28.8	84.6

It is also interesting to follow the development of the average balances on giro account and of the average volumes of transactions per account. In the following table only individual (private) accounts are considered, exclusive of accounts of public treasuries.

AVERAGE BALANCES AND AVERAGE TRANSACTIONS PER ACCOUNT, 1888–1907.

Year.	Average account.	Average volume of transactions per account.
	Marks.	*Marks.*
1888	33,829	7,995,112
1889	32,687	8,817,001
1890	27,401	8,788,792
1891	29,322	8,519,590
1892	30,456	7,792,676
1893	27,897	7,888,447
1894	28,596	7,823,750
1895	29,772	8,149,093
1896	27,170	8,335,384
1897	24,158	8,428,861
1898	24,719	9,353,463
1899	24,383	9,714,917
1900	23,690	9,596,020
1901	23,943	9,074,422
1902	23,585	8,577,220
1903	20,604	8,545,782
1904	20,724	8,872,641
1905	22,067	9,781,051
1906	20,761	10,251,642
1907	20,707	10,693,695

This table offers conclusive proof of the fact mentioned above that while the average amount of deposits has shown a tendency to decrease, the average volume of transactions per account has shown the opposite tendency.

The largest participant in the giro transactions of the Reichsbank is the banking world. On March 31, 1908, the distribution of the giro accounts of private concerns was as follows: Industry and trade, 27 per cent; commerce, transportation, and insurance, 13.8 per cent; money and credit (banks, private bankers, etc.) 52.6 per cent (the per cent share of banking corporations alone was 36.1 per cent); corporate bodies, foundations, private individuals, etc., 6 per cent; agriculture and allied industries, 0.8 per cent.

The total amount of deposits held by the private note banks has changed but little during the twenty-year period. At the close of 1907 this total amounted to but 55,500,000 marks. Of this amount 32,310,000 marks were held by the Saechsische Bank, half of which were interest-bearing deposits subject to notice of withdrawal.

As compared with deposit accounts the credit accounts of the note banks are of secondary importance. The only note banks which do an extensive current-account business with creditors are the note bank of Bavaria, and particularly the Bank of Saxony.

As regards the credit transactions of the note banks, the investments in bills of exchange and in loans on collateral show the following development:

DISCOUNTS AND LOANS OF NOTE-ISSUE BANKS, 1888–1907.

[In millions of marks.]

Year.	Reichsbank.		Other note banks.		Total.	
	Bills of exchange.	Loans on collateral.	Bills of exchange.	Loans on collateral.	Bills of exchange.	Loans on collateral.
1888	517.62	93.07	251.21	41.72	771.88	135.95
1889	653.94	186.22	208.75	39.61	862.70	225.83
1890	613.77	146.13	209.88	36.19	823.66	182.32
1891	572.13	138.61	210.36	26.50	782.76	165.11
1892	606.16	118.90	211.95	25.43	818.09	144.32
1893	604.28	149.16	206.54	28.22	810.82	177.38
1894	602.85	100.38	317.52	23.81	820.37	124.19
1895	769.13	211.19	229.25	29.45	998.38	240.63
1896	771.06	197.20	215.98	28.44	1,007.03	225.65
1897	768.93	172.66	222.41	24.61	991.34	197.28
1898	865.52	186.07	219.22	22.48	1,094.75	208.55
1899	1,080.80	141.68	259.64	23.39	1,335.18	165.07
1900	1,089.19	146.23	256.28	25.13	1,545.47	175.35
1901	999.28	161.44	137.76	70.72	1,137.04	232.16
1902	1,027.08	189.94	131.22	59.82	1,158.30	249.76
1903	1,139.56	212.67	141.65	49.27	1,281.21	261.94
1904	1,011.48	215.05	128.86	64.17	1,140.34	279.22
1905	1,228.61	204.34	127.47	50.54	1,356.08	254.88
1906	1,340.80	284.52	139.61	64.42	1,470.42	348.94
1907	1,495.81	364.30	147.96	39.57	1,643.77	403.87

The holdings of bills form the principal basis for the note circulation, since notes may not be issued against loans on collateral, i. e., these loans must not be included in reckoning the maximum note issue permitted by law. The amount of circulating notes must be fully secured by a reserve of gold, specie, and bills maturing within a maximum term of three months.

At the close of 1907 the holdings of cash and bills of exchange in all banks amounted to 2,507,180,000 marks, while the note circulation amounted to only 2,052,500,000 marks. Thus, 454,680,000 marks of notes might have

been issued in addition. Even then the cash security of the note-circulation would have been a little more than 34 per cent.

The chief credit business of the Reichsbank is that of discounting bills; and in times of increased business activity, when larger amounts of currency are wanted, the Reichsbank normally handles a larger percentage of the total bill transactions than in times of economic depression, when business is transacted more largely on a cash basis. Thus the bills purchased (local bills, drafts on outside places) amounted in 1902 to 7,437,540,000 marks, in 1905 to 8,946,710,000 marks, in 1906 to 10,213,760,000 marks, and in 1907 to 11,882,300,000 marks. Of the total amount of bills held by all the note banks at the close of 1907 only 147,960,000 marks fell to the share of the private note banks, and of this amount 48,610,000 marks in turn was the share of the Note Bank of Bavaria and 63,130,000 marks that of the Bank of Saxony.

The Reichsbank's average holdings of domestic bills show the following distribution as regards the vocation of the clients in favor of whom the bills were discounted:

CLASSIFICATION OF REICHSBANK CUSTOMERS.

[In millions of marks.]

	1905.		1906.		1907.	
	Average holdings.	Per cent.	Average holdings.	Per cent.	Average holdings.	Per cent.
Commerce, transportation, and insurance	174.36	19.91	180.42	19.07	187.95	17.73
Money and banking	425.08	48.54	465.76	49.22	559.98	52.82
Industry and trade	249.83	28.53	272.25	28.77	284.38	26.83
Agriculture and allied industries	11.85	1.35	12.35	1.31	11.13	1.05
Other applicants for credit	14.61	1.67	15.42	1.63	16.65	1.57

The observations made above regarding the giro transactions of the Reichsbank apply equally to its bill-brokerage business; "money and banking" interests occupy the largest share, and their share in the total discount business of the Reichsbank shows an upward tendency. This, however, does not imply that the bills presented to the Reichsbank for discounting by money and banking circles had their origin in all cases in the field of finance and banking. The general rule of the Reichsbank is to discount only such bills of exchange as are in fact genuine mercantile bills of exchange and to exclude from its portfolio the so-called credit and financial bills—that is, bills which are not based on bona fide business transactions. There is a very good reason for this. The bill based upon a real money claim is in a measure a security in itself. It is secured ultimately by business capital already in existence, and through being discounted it discharges the economic function of liquidating the portion of the producer's capital contained in the sold goods. By means of bills the capital fixed in economic goods is released and becomes available for fresh use, beginning with the time when these goods are transferred from the producer to the consumer or the manufacturer.

The difference between a "mercantile" and a "financial" bill of exchange is, however, not sufficiently patent to preclude any mistake in individual cases. It was only about a year ago that the Reichsbank began to make special efforts to eliminate from its holdings all bills which could not be properly classed under the first head. For the rest, the large share of discounted bills credited

to "finance and banking" is accounted for by the fact that the great majority of bills are discounted by the Reichsbank after having been handled first by the credit banks.

The proportion of foreign bills of exchange to the total bill holdings of the Reichsbank is shown in the following table:

PROPORTION OF FOREIGN BILLS HELD BY REICHSBANK, 1888–1907.

[In thousands of marks.]

Year.	Average holdings of foreign bills.	Per cent of total bills.	Total foreign bills purchased.	Per cent of all bills purchased.
1888	3,316	0.8	54,835	1.4
1889	3,798	.7	61,565	1.3
1890	5,420	1.0	63,971	1.2
1891	5,306	1.0	78,303	1.4
1892	4,715	.9	68,525	1.4
1893	4,113	.7	67,245	1.2
1894	2,540	.5	52,702	1.1
1895	2,569	.5	54,013	1.0
1896	2,753	.4	54,421	.9
1897	2,411	.4	54,065	.8
1898	4,934	.7	81,436	1.1
1899	19,045	2.3	131,049	1.6
1900	26,753	3.3	211,751	2.4
1901	26,946	3.2	169,092	1.9
1902	22,733	2.9	180,416	2.4
1903	24,068	2.8	175,003	2.0
1904	22,212	2.7	176,238	2.1
1905	33,093	3.7	229,030	2.5
1906	43,244	4.4	291,853	2.8
1907	44,461	4.0	268,119	2.2

The table shows that beginning with the year 1899 the average investments of the Reichsbank in foreign bills of exchange have experienced a rapid growth, particularly in 1906. It was recognized, and correctly so, that adequate holdings of foreign bills are an excellent means for the continuous regulation of the balance of payments with

foreign countries, and accordingly the Reichsbank, particularly since the early part of 1908, has given increased attention to this class of business. Whenever the rates of exchange are favorable the Bank increases as much as possible its holdings of foreign bills. When, on the contrary, the balance of international payments is unfavorable, as shown by higher exchange rates, the Reichsbank offers to sell foreign bills. It thus prevents or delays a further increase in the rate of exchange and actual gold exports. This policy forms an effective supplement to a rational discount policy and hitherto has been pursued most successfully by the Austro-Hungarian Bank and the National Bank of Belgium. It goes without saying that the foreign exchange business requires a special organization and a careful choice of material, as it is naturally more difficult to ascertain the solidity of foreign than of domestic bills and losses are more easily incurred in handling foreign bills. The average profits which the investment in foreign bills yielded to the Reichsbank are shown in the following table:

	Per cent.
1888	10.8
1889	9.0
1890	6.7
1891	4.6
1892	4.6
1893	5.0
1894	5.3
1895	5.1
1896	4.3
1897	7.6
1898	8.5
1899	5.8
1900	4.2
1901	5.7

	Per cent.
1902	5.3
1903	5.7
1904	4.0
1905	3.8
1906	5.2
1907	6.1

As against the above rates the average Reichsbank rates of discount were as follows:

	Per cent.
1888	3.3
1889	3.4
1890	4.5
1891	3.8
1892	3.2
1893	4.1
1894	3.1
1895	3.1
1896	3.7
1897	3.8
1898	4.3
1899	5.0
1900	5.3
1901	4.1
1902	3.3
1903	3.8
1904	4.2
1905	3.8
1906	5.2
1907	6.0

When the supplementary bank act of 1899 compelled the private note banks to fix their discount rates in accordance with the Reichsbank rates, they applied themselves more and more to the collateral loan business, as is shown in the foregoing table. It is seen, however, that the total loans on collateral at the end of 1907 show a considerable decrease as compared with the like total for the end of 1906. This form of credit, based as it is upon the combined share capital, reserves, and deposits, has under

normal conditions only a limited extent and is liable to give out soon in times of depression.

Both debit and credit accounts are of small importance in the case of the note banks. The securities of the Reichsbank consist of discounted treasury bills of the Empire. The total holdings of these securities represent, therefore, the extent of the credit demands made by the financial administration of the Empire upon the Reichsbank. The imperial budget act stipulates each year the amount up to which the imperial chancellor is empowered to issue treasury bills for a temporary strengthening of the currency reserves of the main treasury of the Empire. The preliminary estimate for the fiscal year 1909 (April 1, 1909, to March 31, 1910), for instance, fixes this amount at 600,000,000 marks. It is customary in such cases to redeem these treasury bills out of the proceeds of the subsequent funded loan of the Empire. Since the year 1901 the Reichsbank's holdings of discounted treasury bills have been continuously quite large, and discussion has been quite frequent whether it would not be better to release the Reichsbank from these credit demands of the Empire. This question was also debated during the above-mentioned bank inquiry. The simplest remedy would probably be to issue funded loans at earlier dates. By an earlier appeal to the investment interests the money market would be spared to a certain extent.

The profits of the note banks depend, in the main, on the rates of discount charged. These profits are distributed annually to their full amount. An accumulation for the purpose of equalizing dividends, as is customary with other banks, does not take place, and the dividends therefore

fluctuate considerably (as may be seen from Tables 13, 14, and 15).

(*c*) THE CREDIT BANKS.

According to the general table[a] (Table 16), the number of credit banks increased from 164 to 421 during the period of 1888 to 1907, and the number of branches from 173 to 1,064. As it was most difficult to ascertain the number of branches for the more remote years, because very often exact data regarding them were missing in the annual reports, it is possible that the number of branches for the earlier years was really somewhat larger than stated. The large increase since 1895 in the number of branches is explained by the extension of the net work of branch banks which were then beginning to be established by the large and medium-sized banks. The deposit branches and exchange offices (*Depositenkassen* and *Wechselstuben*) are not contained in the number of branches, neither are the so-called agencies, of which several provincial banks maintain a large number (up to 70 and 80).

The column "Number of banks" does not show a continuous unbroken increase, which is explained by the fact that each year existing banks were liquidated and new ones added. The decreases for several years were larger than the additions, and in this respect it must be specially borne in mind that since 1902 a large number of smaller institutions disappeared through fusion, while the number of establishments newly founded during this period was not large. The process of concentration and absorption mentioned in the first part of this study, which, beginning

[a] See "Statistics for Germany," Pt. II.

with the year 1902, became characteristic of the development of German banking, is mainly responsible for the reduction in the number of banks.

The large increase in the number of banks during the twenty-year period under consideration is due mainly to the fact that numerous private banking firms assumed a corporate form of existence during that period. The mere growth in numbers, therefore, is but little indicative of the real development of German banking during those years.

This development can be traced much better by the growth of the funds owned by the banks themselves and entrusted to them by outsiders for use and management (*eigne und fremde Kapitalien*). In this respect the table indicates a large and practically continuous growth, which was interrupted only once on the occasion of the economic crisis of the years of 1900 and 1901, which affected the banks particularly and caused several of them to fail. In analyzing the figures of the subsequent years one has to bear in mind further, that in case of bank fusions the absorbing banks as a rule increased their capital stock by smaller nominal amounts than were represented by the canceled amounts of the capital stock of the absorbed banks. The higher market value of the stock of the absorbing bank as compared with the value of the stock of the bank to be absorbed served quite often as an inducement for the amalgamation, since the absorbing bank was able in this manner to create or increase its silent reserves.

During the period 1888 to 1907 the paid-in capital of all the banks considered increased from 846,720,000 marks

to 2,873,300,000 marks, or 239 per cent, while their total "own capital," including capital stock and reserves, increased from 971,910,000 marks to 3,517,230,000 marks, or 265 per cent. During the same period the funds entrusted to these banks (transfer accounts, check deposit accounts, and credit accounts) grew from 1,283,560,000 to 7,514,100,000 marks, or 485 per cent.

As was mentioned in the first part of this study, the economic development of Germany proceeded with particular vigor during the most recent period, beginning with the middle of the nineties of the last century, and this fact finds expression also in the statistical data relating to the development of German banking.

It appears that during the period from 1896 to 1907 the total amount of funds owned by the banks (paid-in capital and reserves) increased by 2,088,560,000 marks from 1,428,670,000 to 3,517,230,000 marks, or 146 per cent. During the same period the funds of outsiders (transfer, check, and credit deposits) increased by 5,466,000,000 marks, or 266 per cent. During the years 1888 to 1895, on the other hand, the banks' own funds had increased merely 46 per cent, against an increase in deposit funds of 59 per cent.

It is further worth mentioning that the proportion of the reserves to the total funds owned by the banks has materially increased within the twenty-year period. At the close of 1888 the ratio of reserves to capital stock was 14 per cent and at the close of 1907 22 per cent. Part of the reserves is formed by allotments out of the annual net profits; the greater part, however, results from the pre-

miums realized from the issue of new shares, which, according to law, must be added to the reserve fund. The law provides, furthermore, that a reserve fund must be created for the purpose of covering any loss that might be shown in the balance sheet; to this fund must be allotted the twentieth part of the annual net profits, so long as the reserve fund does not exceed the tenth part of the capital, or whatever higher percentage is stipulated in the charter of the company.

In addition to these obligatory reserve funds the banks as well as all other corporations make it a regular practice to accumulate other special reserve funds. These funds are the first to be drawn on in case of business losses or in years of decreased prosperity, in order to enable the corporations to distribute the customary dividends. In the tabular statement the obligatory as well as the optional reserves are found combined in the same column.

"Outsiders' funds" (*fremde Kapitalien*) besides the transfer deposits, deposits on check account, and the so-called credit accounts include also "acceptances," i. e., commercial paper indorsed by the banks and placed at the disposal of their customers. If these acceptances be added to the sum of the above items, there appears an increase in the total of "outsiders' funds" in charge of the banks by 8,023,280,000 marks, or of 457 per cent for the period of 1888–1907.

It is seen from the general table that the proportion between the banks' "own" and the "outsiders'" funds and the total liabilities tends to decrease. This tendency shows itself more clearly since 1899, and especially

for the last three years. The proportion between the banks' own funds and outsiders' funds varies for the different banks, as will be pointed out more particularly in the subsequent discussion of the special table for the year 1907. In a general way it may be said that the banking business is the more profitable for the stockholders the larger the part of outside capital with which it is carried on. This is in accord with the French saying, "Les affaires sont l'argent des autres" (Business is outsiders' money). Of the "outsiders' funds" the credit accounts form by far the largest item, amounting to almost twice the deposits proper.[a]

The credit accounts are formed primarily by the active balances standing to the credit of the current accounts, which may be regarded as the very basis of the regular banking business. A customer having a current account with the bank may be at times a creditor and at times a debtor of the bank, since the latter attends to all his money and credit transactions.

As a rule, the bank charges its current-account customers a commission on the business done for them, reckoned either upon their credit or debit, whichever side happens to be larger. Moreover, the bank exacts interest at a rate 1 per cent higher than the Reichsbank's discount rate, and pays on credit balances interest at a rate 1 per cent below the Reichsbank's discount rate.

The amounts appearing in the bank balance sheets under the head of "credit accounts" also include credits which are not the result of current-account business proper, as, for instance, amounts credited to foreigners

[a] See "Statistics for Germany," Part II, Table 16.

on account of foreign securities issued in Germany. The proceeds of such issues are, as a rule, remitted abroad in instalments only. Part of these proceeds is used for the payment in Germany of debts due from foreigners for imported German industrial products or on account of freight charges; part is left with the German credit banks for the payment of interest on securities placed in Germany. To this class belong also credit balances of foreign banks and large capitalists, which at times amount to very large sums, though no exact data on the subject are available. In many cases these amounts are investment funds placed at the disposal of leading Berlin banks and private banking firms. The latter use these funds mainly for short-term credit operations (discounting and the so-called "Reportgeschäft"). Finally it may be mentioned that a large number of corporations and private enterprises maintain continuously fairly large active bank balances, though as a rule German industrial undertakings use large amounts of bank credit in their operations.

As mentioned before, the table for all the credit banks combined indicates that the total "deposits" are but one-half the total of "credit accounts." This proportion varies considerably for the individual banks, as may be seen from the figures.[a] In explanation of these variations it may be stated that the meaning of the term "deposits" is conceived differently in the practice of the various banks and that the term as used in the balance sheets of the banks in most cases has a meaning

[a] See "Statistics for Germany," Part II, Table 17.

altogether different from that which is currently attached to it in theoretical banking literature.

Among banks using almost identical business methods some show "deposits" in their balance sheets, others do not. Items which are included under "deposits" by one bank may figure as part of "credit accounts" of another, although in most cases the character of deposits and "credit accounts" is essentially the same.

When the Berlin large banks began in the seventies to establish their so-called "deposit branches" (*Depositenkassen*) in the various quarters of the city, their object was probably, in the first place, to attract the small funds, which until then in many cases had remained outside the investment channels. The purpose was to facilitate connections between the Bank and fundholders, particularly the smaller tradespeople. At the same time these branches were to take in a measure the place of the rapidly disappearing private banking houses and were to facilitate the placing of the securities issued by the parent bank. At first the branches confined themselves to receiving deposits and dealing in securities on a commission basis. But this did not meet the requirements of the public; moreover, the expenses of maintaining these branches ran quite high. In the course of time, therefore, the branches extended their field of operations so as to include all classes of banking business. At present these deposit branches are more or less complete banking institutions, undertaking all classes of regular banking business in no way differing from that of the parent or central bank.

The banks, as a general practice, are inclined to interpret the term "deposits" in its broadest sense, since the larger the deposits the greater the confidence the public is likely to place in the bank. In order to provide for greater security of the deposits it has been proposed to place legal restrictions upon their investment by the Bank. Against such proposals it may be said that if such legal restrictions were to be adopted the banks concerned would simply transfer in their next balance sheets "deposits" to the column "credit accounts" without in any way changing their true relations with regard to these deposits.

As a matter of fact, the larger part of the "deposits" entirely lack the character of "savings." It is only in times of abnormal money stringency (as, for instance, during 1907) that the banks by offering higher rates of interest are enabled to attract savings funds. But even then the total amounts attracted are rather limited. There are also a few provincial banks which accept for longer periods interest-bearing deposits from their wealthy, mainly landowning, clientele.

As a general rule, the "deposits" of the banks are composed mainly of the business community's available cash resources (which therefore must be held ready for daily withdrawal), of the proceeds of sold securities, of paid mortgages, of interest payments or amounts paid on coupons left at the bank in the liquid shape of cash until reinvested; also of the quarterly salaries of officials who withdraw them in the course of the quarter for living

expenses. All such deposits must be held readily available for the use of the depositors. The rate of interest paid thereon is therefore low. To a very small extent only deposits of the banks represent savings funds proper. This point is especially emphasized in view of the assertions frequently found in scientific banking literature and the public press, that these deposits are ' savings ' and therefore call for separate management and greater security. On the whole, the amounts withdrawn by depositors are continuously replaced by fresh deposits. The banks are thus able to reckon with a fairly definite amount of available deposits and to shape their investment policy accordingly.

As has been stated, most banks make an arbitrary distinction between "credit accounts" and "deposits," and there exists no uniformity in this regard. A few banks mention under "deposits" all credit accounts held by their deposit branches and exchange offices. Other banks, including those which maintain a larger number of deposit branches (for instance, the Nationalbank für Deutschland, the Commerz- und Disconto-Bank, the Mitteldeutsche Creditbank), combine them with other "credit accounts" and book them under the same head. Still other banks are in the habit of designating as "deposits" merely those accounts which are placed with them for a fixed term or which may be withdrawn only after preliminary notice, while classing with "credit accounts" only commercial deposits proper, i. e., those which may be withdrawn without notice.

The various uses made by the banks of the total funds at their disposal appear from the following table:

	1888.	1895.	1900.	1907.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*
Cash and balances on giro account	5.6	5.8	5.3	4.3
Securities and syndicate participations	12.3	11.8	10.4	10.1
Bills receivable	20.9	19.8	22.5	22.4
Loans on collateral (lombard)	13.4	11.6	10.5	10.4
Debit accounts (overdrafts)	46.7	50.8	47.9	49.4
Permanent participations	1.1	1.2	3.4	3.4

It may be seen from the foregoing table that the policy of the banks in the matter of placing their available funds has on the whole continued the same during the twenty-year period under consideration.

The largest portion of the assets, 50 per cent on an average, is given over to "debit accounts." Those banks which present a more specific classification of these accounts in their balance sheets or annual reports draw, as a rule, the following distinctions: Balances with banks and bankers, secured debit accounts, and unsecured debit accounts. The latter item is made up almost entirely of credits granted to first-class business houses of absolutely undoubted solvency. By far the greater part of the debit accounts is composed of "secured" debit accounts. The securities accepted consist mainly of listed securities, hypothecary obligations (*Kautionshypotheken*) and sureties of third persons. Valuable paper deposited as bank security is rated at a smaller amount than its market value. The stipulated margin on the quotation of the day differs according to the quality of the paper; it is

larger in the case of stock than of paper bearing a fixed rate of interest. In case of a decline of prices the margin is maintained either by an increase of the deposit or by a corresponding reduction of the credit balance. These secured debit accounts originate not merely through the extension of bank credit, which in turn is secured by the deposit of securities and other valuable paper, but more often through speculative transactions connected with the issue and security brokerage business of the banks.

The banks undertake for a commission the purchase of securities for their clients, who pay down a certain cash margin and are credited on the books with the balance of the purchase price. The average margins on the market value ordinarily demanded run as follows:

In the case of—	Per cent.
German securities bearing a fixed rate of interest	10
Foreign securities bearing a fixed rate of interest	20
Domestic stock shares	25–33⅓
Foreign stock shares	25–50

As regards the balance the client becomes the debtor of the bank, and these credits are booked in the balance sheets as debit accounts, secured by valuable paper. It is thus seen that a considerable proportion of the "debit accounts" are mere speculative loans resulting from dealings in securities. It is true that these loans merely take the place of former loans made to industrial enterprises on the strength of stock shares and bonds taken over by the banks. The latter subsequently sell them to the public by crediting them with part of the purchase price.

These speculative loans are a source of continuous worry to the banks. In times of a "rising market"

the general inclination of the public to engage in speculative dealings becomes so strong that it causes great inconvenience to the banks. Newly issued shares are taken eagerly by the public at excessive prices, and with the utmost exploitation of the bank credit. When the market declines and the values of the newly bought securities shrink, the banks for the sake of their own safety are compelled to demand an additional margin. If the client is unable to furnish it, the bank in order to secure itself must sell part of his deposit. The banks are often blamed for such measures, which are regarded as a reprehensible method of depriving their clients of their stock holdings. As a matter of fact, however, the banks, in order not to impair the success of their own future issues, show the utmost possible lenieney, even in cases where the utter inadequacy of the security can no longer be doubted. As a general rule, the ultimate recourse to selling the security is avoided as long as possible, since this step invariably involves a loss to the client. Moreover, the banks regard it as their duty not to refuse financial assistance to their clients, particularly in times of financial depression.

Apart from cash loans and the speculative loans just described, the debit accounts include also loans granted by the banks to their clients in the shape of acceptances. The client of the bank converts the acceptance into cash by discounting it elsewhere. The drawer of the bill is expected to meet payment thereon when it falls due, and is also debited at the bank with the return of the acceptance as per date of maturity.

To the banks concerned, the granting of credit in the shape of acceptances presents the advantage that it requires no effective funds. By securing the bank acceptance the client is merely enabled to utilize the credit of his bank. A special class of these acceptances are the so-called "surety acceptances" (*Avalaccepte*), which are deposited with the fiscal authorities for securing credit on account of due taxes and customs duties. The larger portion of bank acceptances originates through domestic and foreign trade transactions.

In dealing with a foreign house the purchaser of goods as a rule advises the seller to draw the bill of exchange for these goods (maturing after several months) not on himself, the purchaser, but on his bank. The reason for this is that the seller is able to discount more advantageously the acceptance of a well-known bank than that of a mercantile firm. An increase in foreign trade results, therefore, as a matter of course, in a larger circulation of acceptances of those banks which take part in the financing of the mercantile transactions. Thus at certain periods the liabilities of the Hamburg and Bremen branches of the Berlin leading banks on account of these acceptances are quite high, though decreasing soon after. While during recent decades the German acceptances in terms of marks have gained considerable popularity in the international market, in certain countries of South America, in Australia and Asia, bills must even at present read in pounds sterling, necessitating, therefore, the use of acceptances of the London agencies of the Berlin leading banks. Domestic mercantile transactions of all classes are likewise adjusted to a large extent by means of bank acceptances.

Aside from the class of acceptances which serves the legitimate needs of trade, there is another which serves mere money-making ends. Traders and manufacturers who wish to trade beyond their own means have a favorite method of obtaining money by drawing upon their bank, as a bank acceptance can at any time be converted cheaply into cash at the so-called private discount rate (normally 1 to 1½ per cent below the Reichsbank discount rate). At maturity the bill is paid very often not out of the cash funds of the drawer but with the proceeds of a fresh acceptance.

It is of course impossible for an outsider to ascertain how much of the entire acceptance circulation of the banks is represented by acceptances of the latter kind.

At the close of 1888 the acceptances amounted to 36 per cent of the debit accounts, at the close of 1895 to 32 per cent, and at the close of 1907 to 35 per cent. The proportion is thus rather stationary, and it follows that approximately one-third of the total bank credit enumerated under the head of debit accounts has been continuously granted in the shape of bank acceptances.

As stated above, the individual bank needs no effective funds for opening this kind of credit, provided the drawer meets payment on the bill at maturity. But since these bills are discounted, it is clear that at least a portion of the total amount represented by these acceptances must be furnished by the banks in cash. The portion of these bills found at any time among the holdings of the banks will be found quite large.

At the close of 1888 the acceptances held by all banks amounted to 81 per cent of all bills, at the close of 1895

to 84 per cent, and at the close of 1907 to 78 per cent. This percentage also shows great stability, and it is safe to assume that approximately 80 per cent of the bill holdings of the banks are bank acceptances. It must also be considered that a large share of the bank acceptances goes to the Reichsbank in order to be discounted, and is therefore found among its holdings; these will mostly be the bank acceptances based upon regular mercantile transactions, since the Reichsbank, as stated above, pursues the principle of accepting for discount only mercantile bills proper. Finally, it must be borne in mind that of the bank acceptances resulting from international trade transactions a certain part is discounted not in Germany itself, but abroad.

The other asset items mentioned in the general tables hardly call for special explanation. "Currency and balance on giro accounts with the Reichsbank" are mentioned as one item in almost all of the balance sheets. Only a relatively small amount of the entire assets falls under this head, but experience has taught that this small portion is sufficient.

Next to cash and the balance at the Reichsbank, bills and "collateral holdings" (*Lombard-Bestände*) are considered the most liquid holdings. The quality of the bill holdings is, however, not the same in the various banks. Besides first-class mercantile bills, acceptances of other banks (private discounts) and foreign bills of exchange payable in gold—that is, besides bills which are as good as gold—the bill portfolios contain also bills which have their origin in pure credit transactions, and represent loans for longer or shorter terms, as they have to be continuously extended

upon maturity. Their realizability is not much greater than that of debit accounts.

The item "Loans on collateral" (*Lombards*) includes, besides advances on merchandise and securities, also the so-called Reports. The total amount of the latter, however, is not large. This class of business has shrunk considerably, particularly under the effect of the late stock exchange act (modified only in 1908), which seriously restricted trading in options. The essential feature of this class of business is that the bank buys speculative securities at the price quoted on exchange on the date of settlement and sells them to the client at the same price on the subsequent date of settlement. As the interest rate for "report" money as a rule is higher than on loans proper, this class of business is very lucrative. Moreover, it is regarded among the most solid credit transactions, since it is done exclusively with houses of undoubted standing and in such securities only which have a wide market and can be sold at any time at a figure not too far below the market price.

With regard to the item, "Securities owned and syndicate participations," it should be stated that the banks are in the habit of holding a certain amount of valuable paper, which is readily convertible into cash, i. e., first-class securities paying a fixed rate of interest, such as state and communal bonds, and mortgage bonds issued by land-mortgage banks or associations. By far the larger part of the securities owned are made up of industrial shares and bonds, real estate paper (*Terrainwerte*), etc., either acquired for speculative purposes, or left over

from emissions or after dissolution of underwriting syndicates. The banks endeavor to rid themselves of such holdings as speedily as possible in order to release for fresh uses the funds invested. The composition of the item "syndicate participations" is practically the same as that of "securities owned." In case the underwriting is done by a syndicate of banks, the individual participations of each bank (to the amount of actual payments made) are booked under the head of "syndicate accounts." If the syndicate is dissolved before the underwritten securities are all sold, each of the participants takes over for his own account the allotted portion. The corresponding amount is then transferred from the "syndicate account" to the "securities account." In case the bank is the sole underwriter, the respective amount is booked from the start on "securities account," there being no syndicate participation.

The majority of the banks show "securities" and "syndicate participations" in one item, though the latter by no means represent assets in the full and unlimited sense as the item "securities owned." For in most cases these participations still call for considerable payments on the part of the banks, which, however, do not appear in the liability column of the balance sheet.

It was mentioned that among their liquid resources the banks carry a certain amount of securities bearing a fixed rate of interest. Occasionally the banks will not offer for sale, but reserve to themselves for permanent holding a certain amount of stock underwritten by them. This is done in order to secure some control over the

corporation financed by them. It must be said though that the available resources of the banks are in most cases not large enough to secure a controlling interest in the corporation, especially if the latter happens to be a large one; but, as stated in the first part of the study, the banks need not invest their own funds to achieve this result, since they are always in a position to obtain the proxies for the stock deposited with them for representation at the stockholders' meeting, in case they intend to procure action through a majority vote of the stock. As a general rule, the directors of the bank are members of the supervising council of the allied corporation, and in this capacity they are in a position to guard the interests of the bank quite effectively with less formality and without involving the bank in troublesome extensive stock engagements. To repeat, in this place, what was said above, the bond uniting the banks and industrial undertakings is revealed neither fully nor even in part through the ownership of bank or industrial shares.

The item "permanent participations" includes the value of the stock of other banks acquired by the banks under the community-of-interest plan, silent partnership interests (*Kommandit-Einlagen*) in other banks and banking houses; also permanent holdings of stock in industrial enterprises founded by the bank. Many banks do not have a special account of these participations, but book them, likewise, under the general head of "securities."

Table 17 contains the financial statistics for each bank at the close of the year 1907. The banks will be found

arranged according to the size of their capital. This arrangement facilitates the review and may best serve the purpose of a comparative study of the individual institutions.

The most noticeable fact in this summary is that, of a total of 421 banks mentioned, 197 banks have a capital of less than 1,000,000 marks, while 224 banks have a capital of 1,000,000 marks and over.

The importance of the 197 small banks to the financial and business interests of the country is, of course, much less than that of the 224 larger banks. Of the total paid-in capital, amounting to 2,873,300,000 marks ($683,800,000), 2,828,770,000 marks ($672,200,000) fall to the share of the 224 banks having a capital of 1,000,000 marks ($238,000) and over, and only 44,530,000 marks ($10,600,000) to the share of the 197 banks with a capital of less than 1,000,000 marks ($238,000). Of the paid-in capital of the 224 larger banks, amounting to 2,828,770,000 marks ($673,200,000), as much as 1,114,000,000 marks ($265,100,000) is claimed by 8 Berlin banks.

Distributing all the items of the table according to these three groups and forming for the sake of comparison a separate group of banks with a capital of 30,000,000 to 80,000,000 marks ($7,140,000 to $19,040,000) (which institutions may be designated as the "large banks"), we obtain the following summary:

	8 Berlin banks with capital of 80,000 000 to 200,000,000 marks.	116 banks with capital of 1,000,000 to 80,000,000 marks.	197 banks with less than 1,000,000 marks capital.	15 banks with capital of 30,000,000 to 80,000,000 marks.
Number of branches	95	766	215	199
Total capital ..... marks	1,114,000,000	1,852,637,000	52,900,000	749,180,000
Paid-in capital ..... do	1,114,000,000	1,714,765,000	44,530,000	731,430,000
Surplus ..... do	332,403,000	293,248,000	18,285,000	137,907,000
Paid-in capital and surplus ..... do	1,446,403,000	2,008,013,000	62,815,000	869,437,000
Deposits and checks ..... do	822,587,000	1,659,976,000	214,751,000	584,361,000
Credit accounts ..... do	2,463,317,000	2,276,462,000	77,007,000	880,944,000
Acceptances ..... do	1,186,751,000	1,071,949,000	4,189,000	594,590,000
Cash and balances on giro account ..... do	283,646,000	263,526,000	7,503,000	84,059,000
Ratio of cash and giro balances to deposits and credit accounts, per cent	8.6	6.9	2.5	5.7
Securities owned and syndicate participations ..... marks	642,237,000	594,391,000	49,935,000	231,471,000
Bills receivable ..... do	1,395,058,000	1,442,637,000	57,609,000	588,391,000
Loans on collateral ..... do	576,561,000	745,011,000	17,142,000	325,065,000
Debit accounts ..... do	2,956,943,000	2,199,495,000	216,786,000	1,033,698,000
Permanent participations ..... do	287,094,000	145,633,000	6,638,000	64,062,000
Ratio of capital and surplus to deposits, credits accounts, and acceptances ..... per cent	32.3	40.0	21.2	42.1
Dividends, total ..... marks	89,765,000	114,993,000	3,054,000	50,998,000
Dividends, rate of ..... per cent	8.0	6.7	6.8	6.9

Of the total funds administered by the 421 banks, amounting at the close of 1907 to 13,294,220,000 marks, 5,919,060,000 marks, or approximately 44 per cent, were in the hands of the 8 Berlin banks (Deutsche Bank, Dresdner Bank, Disconto-Gesellschaft, Bank für Handel und Industrie, A. Schaaffhausen'scher Bankverein, Berliner Handels-Gesellschaft, Commerz- und Disconto-Bank, and Disconto Bank und Nationalbank für Deutschland). But even these figures do not show the predominance and the economic superiority of the large Berlin joint-stock banks. As a matter of fact, a much larger portion of the entire banking capital is subject to the control of the Berlin joint-stock banks than is expressed in the sum total of the capital directly managed by them.

The provincial banks which are connected with the Berlin joint-stock banks through some form of community of interest are formally independent institutions, but they belong to one of the concerted groups of which one of the Berlin joint-stock banks is the center. In reality their relations to the latter do not differ much from those of the branches to their Berlin Central Bank. This is evident among others from the fact that at the regular meetings called by the central board of directors the directors of the affiliated provincial banks appear together with the directors of the branches. The establishment of friendly and mutual relations by way of exchange of shares, or permanent acquisition of shares of the provincial banks by the leading Berlin banks, was pursued by the latter in order "to extend their spheres of interests," and on the part of the provincial institutions "in order to establish thereby valuable connections with a leading Berlin bank."

Of the 8 Berlin banks mentioned, the Berliner Handels-Gesellschaft and the Nationalbank für Deutschland have not at all participated in this group formation, and the Commerz- und Disconto-Bank only to a limited extent.

At the close of 1907 the composition of and the total capital controlled by these groups were as follows:

	Marks.
Deutsche Bank	1, 908, 160, 000
Deutsche Uebersee Bank	204, 940, 000
Bergisch-Maerkische Bank	345, 540, 000
Siegener Bank	15, 320, 000
Duisburg-Ruhrorter Bank	48, 110, 000
Essener Bankverein	57, 540, 000
Essener Kreditanstalt	233, 450, 000
Hannoversche Bank	87, 620, 000
Hildesheimer Bank	36, 430, 000
Osnabrücker Bank	67, 020, 000
Oldenburgische Spar-und-Leihbank	56, 710, 000
Rheinische Kreditbank	307, 380, 000
Schlesischer Bankverein	160, 380, 000
Süddeutsche Bank	33, 550, 000
Deutsche Treuhand-Gesellschaft	3, 690, 000
Privatbank zu Gotha	20, 750, 000
Niederlausitzer Kredit-und Sparbank	3, 650, 000
Braunschweiger Privat Bank	11, 530, 000
Total	3, 601, 770, 000
Disconto-Gesellschaft	873, 230, 000
Norddeutsche Bank	254, 270, 000
Barmer Bankverein	233, 300, 000
Rheinisch-Westfälische Disconto Gesellschaft	240, 770, 000
Dürener Bank	26, 400, 000
Süddeutsche Disconto Gesellschaft	113, 980, 000
Bayerische Disconto & Wechselbank	51, 970, 000
Brasilianische Bank für Deutschland	74, 580, 000
Bank für Chile und Deutschland	44, 450, 000
Bank für Thüringen vormals B. M. Strupp	44, 730, 000
Schlesische Handelsbank	12, 550, 000
Geestemünder Bank	12, 990, 000
Magdeburger Bankverein	42, 470, 000
Total	2, 025, 690, 000

	Marks.
Dresdner Bank	1,021,900,000
A. Schaaffhausen'scher Bank-Verein	593,930,000
Rheinische Bank	82,350,000
Märkische Bank	22,990,000
Westfälisch-Lippesche Vereins-Bank	21,570,000
Mittelrheinische Bank	65,790,000
Mülheimer Bank	26,380,000
Württembergische Landes-Bank	21,220,000
Pfälzische Bank	184,580,000
Oberschlesische Bank	9,170,000
Oldenburgische Landesbank	42,440,000
Mecklenburgische Bank	19,500,000
Schwarzburgische Landes-Bank	11,530,000
Deutsche Süd-Amerikanische Bank	47,580,000
Total	2,170,930,000
Bank für Handel und Industrie	599,540,000
Breslauer Disconto Gesellschaft	93,710,000
Deutsche National-Bank	109,590,000
Ostbank für Handel und Gewerbe	91,800,000
Vereinsbank Wismar	16,090,000
Württembergische Bankanstalt	24,190,000
Total	934,920,000
Commerz- und Disconto-Bank	359,010,000
Kredit- und Sparbank Leipzig	16,310,000
Total	375,320,000

The above groups represent a joint capital of 9,108,630,000 marks, and if to this be added that of the Berliner Handelgesellschaft and of the Nationalbank für Deutschland, the 8 leading Berlin banks, with their affiliated banks, represent a controlled capital of 9,849,180,000 marks, or about 74 per cent of the entire capital controlled by all the 421 banks. This will show the dominant position which the leading Berlin banks actually occupy in the banking system.

In the interest of greater clearness it should be stated that in the above summary of the entire capital of the various groups the amounts of capital stock held by the allied banks in the shape of permanent participations are duplicated. The extent of these duplications can not be ascertained, since the banks fail to make specific statements regarding this point in their annual reports. It is true that many banks carry in their reports the special account "permanent participations," but they fail to give specific figures under that head. Of the Berlin banks only the Disconto-Gesellschaft, besides giving the total of its "permanent participations," states separately among its holdings the entire capital of the Norddeutsche Bank in Hamburg, 50,000,000 marks ($11,900,000).

But if it is intended merely to demonstrate the power of the combined capital represented by the bank groups—and this is after all the main purpose of this study—it is really of secondary importance to ascertain the exact extent of the duplicated capital amounts. For in actual practice each of the allied banks operates with its full capital (capital and surplus) without regard to the portion of stock interchanged on which their community of interest is based.

Even aside from the increase in capital power which accrued to the leading Berlin banks as the indirect result of their alliances, the annual increments of capital since 1900, both absolute and relative, were larger year by year in the case of the Berlin banks than in the case of the provincial banks. A reversal in this regard occurred in 1906. For that year the increase in capital controlled

amounted in the case of the Berlin banks to 12.5 per cent (1905, 15.7 per cent); in the case of the provincial banks, on the other hand, to 20.7 per cent (1905, 16.6 per cent). The year 1907 brought even a stronger turn in favor of the provincial banks. The latter noted an increase of the capital employed of 14 per cent; the Berlin banks, on the contrary, showed almost complete stagnation, the increase amounting to only 0.13 per cent. This movement during the years 1906 and 1907 must not, however, be regarded as the beginning of retrogression; it is to be attributed solely to the fact that as the result of strained conditions in the money market a relatively larger portion of the funds of the industrial and mercantile community which in former times was kept with the Berlin banks was withdrawn, and, on the other hand, that the amounts placed by these interests at the disposal of the Berlin banks were smaller than the amounts placed by them during that time at the disposal of the provincial banks. It must also be considered that in times of redundant money the provincial banks often place considerable funds at the disposal of the Berlin banks, which are withdrawn whenever the credit demands of their own clientele increase.

By arranging the largest institutions, with a capital of 30,000,000 marks and upward, according to the amount of capital controlled by them—which would express their commercial importance—we obtain the following table:

[In millions of marks.]

	Total assets.				Capital.			
	1907.	1906.	1905.	1904.	1907.	1906.	1905.	1904.
Deutsche Bank	1,908	1,813	1,557	1,367	200	200	180	180
Dresdner Bank	1,022	1,067	931	891	180	168	160	160
Disconto-Gesellschaft	873	863	783	707	170	170	170	170
Bank für Handel und Industrie	600	594	585	440	154	154	154	154
A. Schaaffhausen'scher Bankverein	594	565	516	473	145	134	125	125
Berliner Handelsgesellschaft	431	420	380	321	100	100	100	100
Bergisch-Maerkische Bank	346	315	273	247	75	75	60	50
Commerz- und Disconto Bank	352	384	324	230	85	85	85	50
Nationalbank f. Deutschland	323	343	298	212	80	80	80	60
Rheinische Credit Bank	307	270	259	184	75	70	70	50
Norddeutsche Bank	254	220	219	298	50	50	50	50
Barmer Bankverein	233	209	179	148	60	60	50	46
Essener Creditanstalt	233	215	175	142	60	60	50	40
Pfaelzische Bank	185	180	169	161	50	50	50	50
Rhein. Westfael. Disconto Gesellschaft	241	205	165	119	80	66	60	44
Mitteldeutsche Creditbank	169	170	158	141	54	54	54	45
Schlesischer Bankverein	160	139	125	------	30	30	30	------
Dortmund. Effekten- und Wechselbank	72	71	66	65	30	30	30	30
Vereinsbank in Hamburg	159	144	------	------	30	30	------	------
Sueddeutsche Disconto Gesellschaft	114	------	------	------	31	------	------	------

The table demonstrates clearly the large predominance of the Deutsche Bank. Among the banks with more than 30,000,000 marks capital three mortgage banks must be mentioned which do also an extensive credit bank business: The Bayerische Hypotheken- u. Wechselbank with a capital of 54,290,000 marks and 1,133,520,000 marks capital controlled; the Bayerische Vereinsbank, with 37,500,000 and 484,440,000 marks, respectively; and the Allgemeine Deutsche Kreditanstalt, at Leipzig, with 90,000,000 and 375,710,000 marks, respectively. In the

case of the two Bavarian institutions, by far the larger portion of the total funds is represented by mortgage bonds or mortgages. In the case of the Leipzig institution this portion is not very large. The amount of total funds administered constitutes the only exact standard by which the relative importance of the banks may be measured. No attempt has been made to present comparative figures of business done, since these figures may be made up in various ways according to the various methods of bookkeeping used.

Returning to the above classification of the banks, another feature deserving mention is the ratio between capital owned by the bank and funds of outsiders administered (*eignes und fremdes Kapital*).

For the first group—8 Berlin banks with over 80,000,000 to 200,000,000 marks capital—the ratio of capital owned (capital and surplus) to the total funds of outsiders (deposits, credit accounts, and acceptances) amounts to 32.3 per cent; for the second group (116 banks with 1,000,000 to 80,000,000 marks capital) to 40 per cent; for the third group (197 banks with less than 1,000,000 marks capital) to 21.2 per cent; and for the fourth special group (15 banks with 30,000,000 to 80,000,000 marks capital) to 42.1 per cent.

It is seen that this percentage is lowest for the third group—that is to say, the small and smallest banks employ outsiders' funds to a very much larger extent than the medium size and large banks. A glance at[a] Table 17 shows various small institutions with exceedingly low percentages between capital owned and outsiders' funds. These are institutions which for the greater part have

[a] See "Statistics for Germany," Part II.

their origin in cooperative banks and are of local importance only. They enjoy the confidence of the public within their local district, and in most cases deserve it fully by conservative local investments of the funds intrusted to their care.

Next to the small banks the ratio between capital owned and outside funds is lowest for the 8 Berlin leading banks and highest for the 15 banks with 30,000,000 to 80,000,000 marks capital—that is, for the "medium-size" banks. In the Berlin banks the total outsiders' funds (credit accounts and deposits, exclusive of acceptances) constituted at the end of 1895 51 per cent of the total funds (capital, surplus, credit accounts, and deposits); at the end of 1905, 69.1 per cent; at the end of 1906, 71.2 per cent, and at the end of 1907, 70.9 per cent. Until the close of 1906 a rising tendency of this percentage is therefore evident. In 1907 a slight decrease occurred.

For the largest and for a number of medium-size institutions this ratio was as follows:

RATIO OF CAPITAL AND SURPLUS TO DEPOSITS AND CURRENT ACCOUNTS.

	1907.	1906.
	Per cent.	*Per cent.*
Deutsche Bank	80.0	80.9
Dresdner Bank	70.0	74.0
Disconto-Gesellschaft	64.2	63.1
Bank für Handel und Industrie	64.9	63.4
Berl. Hand.-Gesellschaft	62.3	62.2
Schaaffhaus. Bankverein	58.3	61.5
Nationalb für Deutschland	65.8	68.3
Commerz- und Disconto Bank	66.0	68.4
Mitteldeutsche Kreditbank	40.5	50.1
Barmer Bankverein	44.0	49.6
Berg.-Maerk. Bank	62.8	59.8
Rhein.Westfael. Disconto Gesellschaft	49.6	51.0
Essener Kredit-Anstalt	59.9	56.1
Pfaelzische Bank	56.5	55.7
Rhein. Kreditbank	56.8	55.1
Schlesisch. Bankverein	73.2	69.2
Vereinsbank in Hamburg	73.4	71.3

In the first group (8 Berlin banks) the deposits at the close of 1907 represented 25 per cent of outsiders' funds (deposits and credit accounts), in the second group (116 banks) 42 per cent, in the third group (197 banks) 73 per cent, and in the fourth group (15 banks) 39 per cent. With regard to the first group it must be remembered that the Berliner Handels-Gesellschaft, the Nationalbank für Deutschland, and the Commerz- und Disconto- Bank do not carry deposit accounts. It will be observed again that the small banks, with less than 1,000,000 marks capital, class as deposits by far the larger portion of outsiders' funds entrusted to their custody (73 per cent). A considerable part of these funds probably represent actual savings, though, as was explained above, this is not true of the larger portion of the total bank deposits. For the rest, reference should be made to previous explanations showing that the distinction between "credit accounts" and "deposits" as made by the banks, is more or less arbitrary and not based upon uniform principles.

The modes of employment of the available funds are shown in the following table:

In—	Group I—8 Berlin banks.	Group II—116 banks.	Group III—197 banks.	Group IV—15 banks.
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*
Cash and giro balances	4.1	4.9	2.1	4.8
Securities and syndicates	10.8	8.9	13.9	9.8
Bills receivable	23.5	22.5	16.3	20.1
Loans on collateral	9.7	12.6	5.7	12.1
Debit accounts	47.0	48.6	60.2	47.0
Permanent participations	4.9	2.5	1.8	2.2

The differences in the mode of employment of the funds for the various groups are not important enough to call

for special remarks and conclusions. Group III (small banks) again deviates from the average, showing a relatively smaller amount in cash and giro balances and a relatively larger amount in debit accounts.

The proportion of acceptances to debit accounts amounts for Group I to 40 per cent, for Group II to 33 per cent, for Group III to 2 per cent, and for Group IV to 45 per cent.

Large differences exist between the various banks as regards the ratio between acceptances and debit accounts. For the following large and "medium-size" banks this proportion is as follows:

	Per cent.
Deutsche Bank	44
Disconto Gesellschaft	54
Dresdner Bank	46
Schaaffhausen'scher Bkv.	39
Bank für Handel u. Industrie	23
Berlin. Handels-Gesellschaft	41
Nationalb. f. Deutschland	34
Barmer Bankverein	42
Bergisch-Maerkische Bank	33
Essener Creditanstalt	26
Rhein. Creditbank	45
Rhein. Westf. Disc. Gesellschaft	27
Sueddeutsche Disc. Gesellschaft	36
Vereinsbank in Hamburg	35
Allgem. Elsaess. Bank-Gesellschaft	57
Deutsche Nationalbank	46
Magdeburger Privatbank	44
Schles. Bankverein	9
Pfaelzische Bank	63

The tables for all banks combined show that the rates of dividends distributed by the banks during the twenty-year period have on the whole been very stable. The fluctuation between the average maximum rate of 7.8 per cent and the average minimum rate of 5.5 per cent amounts to only 2.3 per cent. The lowest rates are

given for the years 1891 and 1893, and subsequently for the years 1901, 1902, and 1903. These were years of general economic depression. The banks in particular passed then through severe crises, during which several failures, some of them quite important, were noted.

For the year 1907 the average dividends for each of the above four groups show the following rates: The average dividend rate for the first group (8 Berlin banks) was 8 per cent; for the second group (116 banks), 6.7 per cent; for the third group (197 banks), 6.8 per cent; and for the fourth group (15 banks), 6.9 per cent. The Berlin leading banks are shown to hold first place in the matter of dividends declared. It should be remembered, however, that these banks have accumulated considerable surpluses on which no interest need be earned, but which operate in the business just like the capital, as there is no separate investment of the surplus. The small banks have even relatively larger surpluses than the Berlin banks. The proportion of surplus to the banks' own total capital (capital and surplus) was for the first group 23 per cent; for the second group, 14 per cent; for the third group, 29 per cent; and for the fourth group, 16 per cent. For the Deutsche Bank this proportion amounts to 33 per cent; for the Dresdner Bank, to 22 per cent; for the Disconto-Gesellschaft, to 25 per cent; for the Bank für Handel und Industrie, to 16 per cent; for the A. Schaaffhausen'scher Bankverein, to 20 per cent; for the Berliner Handels Gesellschaft, to 23 per cent; for the Commerz- und Disconto-Bank, to 13 per cent; and for the Nationalbank für Deutschland, to 14 per cent.

Brief mention should also be made of the fact that, aside from the visible reserves shown in the balance sheets, the Berlin banks carry also considerable silent reserves, made up of the large amounts written off their valuable holdings of real estate and movable property and as the result of careful balancing of the asset items, more especially of securities and participations. In this respect, too, the Deutsche Bank takes first rank.

Figures for the German over-sea banks are given both in the general table, as well as in the special table, showing the condition of the banks at the close of 1907. Summary figures for the same date are also given in the special Table 18. The central offices of these banks are in Berlin and Hamburg, respectively, though the actual business is done by the agencies abroad. Until the present, however, only the Deutsche Ueberseeische Bank, founded by the Deutsche Bank, the Brasilianische Bank für Deutschland, founded by the Disconto-Gesellschaft, and the Bank für Chile und Deutschland have done any considerable business. The Disconto-Gesellschaft has also affiliations with the Deutsche Afrika Bank and with the Deutsche Palästina Bank. The Deutsch-Südamerikanische Bank and the Deutsche Orient Bank have been founded by the Dresdner Bank, the A. Schaaffhausen'scher Bankverein, and the Nationalbank für Deutschland. These institutions, as well as the America Bank, established by the Bank für Handel und Industrie, are foundations of recent years. The Deutsche Westafrikanische Bank is closely affiliated with the Dresdner Bank.

When, a few years ago, the leading Berlin banks considered their organization and the extension of their do-

mestic sphere of interests on the whole completed, they undertook with increased energy the extension of their over-sea connections. To these endeavors the Deutsche Orient Bank, the Deutsche Südamerikanische Bank, and the America Bank particularly owe their origin. The purpose of these banks is as much to aid German commerce by carrying on a regular banking business in the countries in question as to further the large financial undertakings of the parent institutions (underwriting of foreign loans). There is strong rivalry between the individual Berlin banks, on the one hand, and between the latter and foreign financial institutions, on the other, with regard to business in the Near East, particularly in Turkey. As regards the latter country the Deutsche Bank has been instrumental for many years in placing considerable capital in various transportation enterprises, such as railroads and harbor improvements. More recently the bank has been trying to extend its sphere of interests by opening a branch in Constantinople.

Competition between the leading Berlin banks is still quite noticeable in the foreign business, as well as in the regular banking business. In the field of large financial transactions, especially the issuing of domestic industrial securities, joint action on their part is becoming the rule in an increasing manner.

The larger part of the stock of the older over-sea banks and probably the entire stock of the newer banks of that type are held by the Berlin parent institutions.

The Deutsche Ueberseeische Bank has found a profitable field of operation in South America. The same is

true of the Brasilianische Bank für Deutschland and of the Bank für Chile und Deutschland which have become firmly rooted in their respective territories and on the whole show satisfactory results. The activity of the Deutsche Südamerikanische Bank and the Deutsche Orient Bank has not yet extended much beyond perfecting their organization. Moreover, the financial crisis in Egypt in 1907 and the recent economic depression in South America were bound to react unfavorably upon the development of these young institutions. Least satisfactory has been the development of the America Bank, which was also founded during the most recent period. Its special purpose was to issue and deal in American securities. This bank started extensive financial operations with a relatively large capital, but owing to the general reaction in the field of commerce, industry, and on the stock exchange the new bank has been unable to make much headway. Its operations for the first years show a net loss.

(*d*) THE LAND MORTGAGE BANKS.

The number of land mortgage banks increased from 28 to 41 between the years 1888 and 1907. As may be seen from the special table, there has been no change in their number for several years. These banks, as stated in the earlier part of the study, require a franchise on the part of the government authorities, who, it seems, do not find that there is sufficient need for new institutions of this kind. The number of their branches is relatively small and far below that of the credit banks. Only a few non-Prussian mortgage banks have opened branches in Berlin.

This was done partly in view of the extensive field of operations which this rapidly growing city offers to banks of this type. It may be added that the establishments having branches in Berlin are all banks of the "mixed type," i. e., institutions which besides land mortgage business proper (i. e., the granting of mortgage loans and the issue of mortgage bonds), transact also an extensive credit-bank business. It is mainly in the interest of the latter class of business that they adopted the decentralized system of the credit banks, i. e., the opening of branches. Chief among them is the Allgemeine Credit Anstalt in Leipzig, which is extending its credit business continuously at the expense of all other classes of banking operations, and the South German (Bavarian) institutions. The latter, during recent years particularly, have largely extended their branch system in South Germany by absorbing small banks and private banking firms. This was done mainly to counteract the effect of the concentration movement started by the Berlin banks. When this movement assumed serious proportions in South Germany, the land mortgage banks of that section became alarmed not only about their bank-credit business but even more so about the possibility of losing the most valuable agencies for the disposal of their mortgage bonds. For it was mainly the small banks and private banking firms, absorbed by the Berlin banks, which were instrumental in the sale of these bonds to the public. In order, then, to save their bond market, the South German banks during the years 1905–1907 showed an increased activity in establishing branches of their own.

Among mortgage banks of the mixed type are found the Bayerische Hypotheken- und Wechselbank in Munich, die Bayerische Vereinsbank in Munich, the Vereinsbank in Nuremberg, the Bayerische Handelsbank in Munich, the Aktien-Gesellschaft für Boden-und-Kommunal-Kredit in Elsass-Lothringen in Strassburg, the Württembergische Vereinsbank in Stuttgart, the Mecklenburgische Hypotheken- und Wechselbank in Schwerin, the Allgemeine Deutsche Credit Anstalt in Leipzig, the Anhalt Dessauische Landesbank, the Landwirtschaftliche Kreditbank in Frankfurt am Main, and the Grundkreditbank in Königsberg.

With the exception of the Landwirtschaftliche Kreditbank in Frankfurt am Main and the Grundkreditbank in Königsberg, which issue bonds made out to a specified person and indorsable in blank, all of the mortgage banks issue mortgage bonds made out to bearer. The two institutions further mentioned in the table, the Kommunalbank des Königreichs Sachsen and the Kreishypothekenbank in Loerrach, are not mortgage banks in the sense of the imperial mortgage-bank act, though their business methods differ but little from those of the mortgage banks proper. Practically all the mortgage banks have accumulated large reserves, particularly so since the Imperial mortgage-bank act (July 13, 1899) went into force. At the close of 1888 the ratio of their reserves to capital was 20.2 per cent; at the close of 1895, 24.8 per cent; at the close of 1899, 29.5 per cent; and at the close of 1907, 40.8 per cent. In other words, the reserves increased considerably faster than the capital, particularly so since 1899. And it must be said that the mortgage-bank act has had something to do with this development.

The issue of mortgage, communal, and local railway bonds is restricted by the requirement that they must be secured by claims of at least equal value and bearing at least the same rate of interest. (Sec. 6, Par. I, of the imperial mortgage-bank act.) The total amount of these issues must not exceed a fixed proportion of the capital including the legal and other reserves whose exclusive destination is to make up losses shown in the balance sheets or to secure the mortgage bonds.

Section 7 of the mortgage-bank act fixes the permissible maximum circulation of mortgage bonds at fifteen times the combined amount of the original capital and the reserve funds named. In case communal and local railroad bonds are issued the total amount of the securities must not exceed by more than one-fifth the maximum amount for mortgage bonds fixed by section 7. The imperial mortgage-bank act of July 13, 1899, however, guarded the vested rights of the then existing institutions to some extent by providing in paragraph 48 that a mortgage bank, which at the time of the promulgation of the law had the right to issue securities in excess of the above-mentioned maximum, should retain this privilege, provided, however, that the circulation of mortgage bonds must not exceed twenty times and (including the circulation of communal and local railroad bonds) twenty-four times the paid-in capital. The latter was to be considered in this connection only on condition that it remained within the amount at which the capital of the bank was found fixed by the charter under date

of May 1, 1898. Within these maximum legal limits the banks enjoy, of course, full liberty of stipulating in their own charters the limits of circulation, and thus almost every bank has its own way of fixing its maximum bond circulation.

According to the general table (Table 19) the ratio of capital and surplus to bond circulation has not been subject to large fluctuations during the twenty-year period. The special table for the close of 1907, on the other hand, shows considerable differences with respect to this ratio for the individual institutions.

The lower this ratio the better for the dividend interests of the shareholders. A low ratio may also benefit the borrowers, i. e., the mortgagors, since with a relatively large circulation of mortgage bonds the banks can afford to be satisfied with smaller profits on each additional loan transaction than with a relatively small bond circulation. The reverse is true as far as the holders of the mortgage bonds are concerned. What they are interested in is a relatively small bond circulation and a relatively large capital (capital and surplus) of the bank, inasmuch as the security of the bonds is partly based on the bank's own capital. Experience, however, has taught that the actual security of the bonds is found primarily in the quality of the mortgages, i. e., the value of the properties mortgaged. The provisions of the imperial mortgage act are likewise based upon this consideration. As stated in the first part of this study, the methods of appraisal as well as the procedure in granting loans followed by the mortgage banks have, on the whole, proved conservative and reliable.

Occasional losses of capital and interest are unavoidable; at times it may even happen that the banks have to take over the mortgaged properties at forced sales, in case third purchasers are not on hand, or when the price offered is not sufficient to satisfy the claim of the bank, or when the sale does not come off.

In times of depression, when real estate values are low, the acquisition of the property by the bank may prove a profitable investment in the long run, since with the passing of the temporary depression the property can be easily disposed of at a higher price. The banks avoid, however, as a matter of principle, such acquisitions. They prefer to suffer small losses, which they cover out of their surplus, rather than introduce any speculative features into their business operations. This is, moreover, absolutely in conformity with the provisions of the mortgage-bank act.

According to this act, the bank, for the purpose of securing its bond circulation, may book the value of the mortgage resting upon such a property not higher than at half the amount at which it was booked before the property was acquired. If this reduction causes a deficiency below the legal minimum in the security of the outstanding bonds and the shortage can not be made up at once by new mortgages, the bank has to make it up in the shape of debentures of the Empire or those of a Federal State, or by cash. In a general way, it may be said that the legal provisions regarding the security of the mortgage bonds have been framed with the view of meeting all emergencies and of protecting to

the utmost the interests of the holders of the mortgage bonds.

The combined amount of the "secured mortgages," the communal and local railroad bonds, represents, as a rule, a total security considerably in excess of the amount of circulating bonds. Whenever this security proves insufficient, the amount short, as was stated before, must be turned over to the trustee in the shape of debentures of the Empire or of a Federal State. The mortgage-bank act of 1899 prescribes the keeping of separate accounts for "secured mortgages" and "unsecured mortgages." The latter are also acquired largely for the purpose of serving as bond security. Their effective use for that purpose is excluded either temporarily for purely formal reasons or else by the provisions of the charters of the respective institutions which exclude from bond security mortgages on building sites or uncompleted buildings. The mortgage-bank act permits the use as bond security of mortgages on building sites and on buildings in process of construction (and therefore yielding no income) only to the extent that their total does not exceed one-tenth of the total amount of all the mortgages used in securing the bonds outstanding and one-half of the paid-in capital.

As regards the term "building site," the imperial supreme court (*Reichsgericht*) has held that a piece of ground becomes a "building site" in the sense of the law only in case it is situated on a street laid out for building purposes in accordance with the respective police regulations or, at least, when the building lines

have been fixed by the authorities, and if in view of the past and possible growth of the settlement the construction of the street can be surely expected within the proximate future, and, finally, in case there are no legal objections against the erection of a building thereon.

The mortgage banks are not permitted to grant loans on pieces of ground which do not conform to the above requirements or which are neither improved nor under cultivation, and therefore yield no income—i. e., mortgages on such land can not serve as bond security.

By far the greater part of "secured mortgages" rest upon improved urban property, chiefly property in the large cities. A rural mortgage-loan business of some importance is carried on by two banks only, the Preussische Central Boden Credit Aktien-Gesellschaft in Berlin and the Bayerische Hypotheken- und Wechselbank in Munich. Mortgage loans granted by these institutions on rural property are repayable in annual instalments. The main result of the activity of the Preussische Central Boden Credit Aktien-Gesellschaft in this field has been thus far the conversion of terminable mortgage loans on rural property into loans redeemable by means of small periodic payments. The spread of the new form of amortization credit has been undoubtedly a great boon to the agricultural classes, and part of the credit for this commendable improvement belongs to the above-named Prussian bank. The Bayerische Hypotheken- und Wechselbank has been for years the principal source of credit for the Bavarian rural landowning classes.

The owners of urban property, as a rule, are not much disposed to favor the above system of interminable mortgages, and repayable in instalments only, for the reason that encumbrances of this sort tend to restrict the market for the property thus encumbered. Mortgages on urban property in most cases, therefore, are of the terminable class, running usually for a fixed term of ten years. At the expiration of that term the mortgage is either paid off or extended for another ten-year period. An opportunity is thus offered to either side to change the rate of interest in accordance with conditions prevailing at the time in the loan market.

On the whole, interest rates on mortgage loans are subject to but slight variations. It should be remarked, however, that the borrower when obtaining a mortgage loan has to pay a bonus the rate of which will be considerably higher in times when money is scarce than in times when its supply is redundant.

The column "Outstanding interest" comprises the interest payments on mortgages due at the end of the year but remaining unpaid. The larger part of these payments is made only during the first months of the succeeding year. The arrears are for the current fiscal year and in most cases only for the last quarter or part thereof.

In times of a large increase in the supply of bonds the mortgage banks may go into the market to buy their own bonds. Such action prevents serious fluctuations in the quotations of these securities and fits them to be objects of permanent as well as temporary investments,

including the investment of funds which must be kept in liquid shape.

The imperial mortgage-bank act permits such operations by the express provision that mortgage banks may employ their available resources for the purchase of their own bonds. These bonds, which are reissued at the nearest favorable turn, are shown as assets in the balance sheets and booked either separately or on securities' account. In order to ascertain the true bond circulation the amount shown under the head "Own bonds" must, therefore, be deducted from the total bond circulation stated. But even that would not give the exact amount, since the "Own bonds," being assets, must by law be entered in the balance sheet at the price purchased or quoted on exchange, while the outstanding bonds, being liabilities, figure there at their nominal prices.

The item "Loans on collateral" (*Lombards*) is composed of mortgages and securities pledged. The other items of the table require no further explanation.

The average rates of dividends paid by the mortgage banks show great stability and are somewhat higher than those paid by the credit banks. The greater part of the dividends earned proceeds from mortgage and mortgage-bond transactions. In the case of institutions of the "mixed type" the profits from the other classes of business also enter the total to a larger or smaller extent.

The net proceeds from the mortgage and mortgage bond business are made up of interest and bonuses paid by the mortgagors less the interest on the mortgage

bonds, the cost of preparing these bonds, and the commissions to banks and bankers on the sales of these bonds. No separate account is kept of these commissions. The profits and losses from the sale and repurchase of their own bonds in open market, and due to the fluctuating market quotations, in the long run neutralize each other. Their mode of accounting is minutely prescribed by the mortgage act. It may also be stated that the total receipts from loans exceed on an average by about one-half of one per cent the total interest payments on the bonds (exclusive of the cost of preparing and placing the bonds).

The two main items in the special table, "bonds" and "mortgages," are shown to have increased fourfold during the period 1888 to 1907. The great importance of the mortgage banks in the domain of real estate credit, especially that on urban real estate, is clearly shown by the growth and present magnitude of the figures.

(*e*) THE LANDSCHAFTEN (LAND CREDIT ASSOCIATIONS).[a]

The nature and the organization of the Landschaften have been described in the first section. A statistical summary of their development during a given period is rendered difficult, because as a rule they do not publish annual reports and balance sheets in the form used by most of the stock companies. Only within recent years have a few of the newer Landschaften adopted a method of accounting somewhat similar to that used by the corporations, while the old Landschaften still retain their former method. Their conservatism in this regard is due

[a] See "Statistics for Germany," Part II, Tables 21 and 22.

partly to sentimental attachment to the past. This is easily comprehended when it is considered that some of the institutions have been in existence for over one hundred and fifty years. The old Landschaften comprise the Schlesische Landschaft in Breslau (established July 15, 1770), the Kur-und Neumaerkisches Ritterschaftliches Kreditinstitut in Berlin (established June 15, 1777), the Pommersche Landschaft in Stettin (established March 13, 1781), the Westpreussische Landschaft in Marienwerder (established April 19, 1787), and the Ostpreussische Landschaft in Königsberg, Prussia (established February 16, 1788).

A summary statistical presentation of the development of all these institutions can show only a few common items. No account can be taken of the various classes of mortgage bonds issued by the same, or the different institutions. Brief mention of these differences has been made in the first part in connection with the general description of the organization of the Landschaften. Moreover, the business of these institutions is so strictly limited to one particular field, that its general features can be characterized sufficiently even by a few items.

The amount of the bond circulation conforms to the amount of the mortgage holdings. It must be remarked in this connection that the Landschaften, like the mortgage banks, do not grant loans on the properties—in this case, the estates—up to the full amount of the appraised value, but only to a certain percentage of that value. This percentage is not the same with all Landschaften, and the various Landschaften have in turn

issued various classes of bonds, according to the varying loan limits applicable to the underlying mortgages. The safety funds, sometimes called "Eigentümliche Fonds," together with the mortgages, serve to secure the bonds. The same applies to the amortization fund, which is made up by the debtors in the form of annual contributions. This fund is used to extinguish loans by means of bond redemptions. The cooperative character of these institutions implies, however, that under certain conditions the amortization fund may be drawn upon for the satisfaction of the claims of the bondholders. In the case of the older institutions an additional security is afforded by the joint liability of all the members of the associations, although the value of this security can not be expressed in terms of exact figures. In the case of some of these institutions only part of their bonds are thus doubly secured. The bonds of the Silesian Landschaft are secured in addition by the state domains, while the bonds of the East-Prussian Landschaft are secured in addition by the state domains and forests.

There can be no doubt of the unexceptional safety and security of the bonds issued by these institutions. During the early years of their existence they were able to rescue the landowners from financial distress; in subsequent years they rendered extremely valuable service to the rural landlord class, and that they have been performing a useful function in the credit economy of the nation even during the most recent period can be plainly seen from the increase of their loans and bond circulation during the last twenty years.

Aside from the Prussian Landschaften (the Landschaften in the proper sense of the term),[a] there exist in the other German Federal States credit institutions modeled after the Prussian Landschaften and of a similar character as regards their organization and operations. There are five institutions of this type, viz, Mecklenburgischer Ritterschaftlicher Kreditverein in Rostock, Württembergischer Kreditverein in Stuttgart, Erbländischer Ritterschaftlicher Kreditverein im Königreich Sachsen in Dresden, Landwirtschaftlicher Kreditverein für das Herzogtum Braunschweig in Wolffenbüttel. Their bond circulation at the close of 1906 amounted to 495,000,000 marks.

[a] See "Statistics for Germany." Part II, Tables 21, 22.

II

THE ORGANIZATION OF CREDIT AND BANKING ARRANGEMENTS IN GERMANY.[a]

By Geh. Oberfinanzrat Waldemar Mueller, Director of the Dresdner Bank in Berlin.

Germany was poor in capital when she entered on the era of steam engines and railways. Through the devastation of the Thirty Years' war, she lagged behind her western neighbors and England. The results of a century's economy later on were also lost, especially in northern Germany, through the French revolution and the Napoleonic wars. The dearth of capital among landowners was the economic reason for the elaboration of the legal statutes concerning mortgages by which demands for credit on landed property were met in Prussia, and, later, throughout the whole of Germany, to an extent unknown in western countries.

In the present day when complaints are urged against the great indebtedness of country landowners, the fact must not be lost sight of that the transition from extensive to intensive operations in agriculture could not have been accomplished without a wide use of mortgage credit, and that such development was necessary to feed the rapidly increasing population of the country. Moreover, through this great growth in the population a basis

[a] The following essay is reproduced from lectures held during the spring of 1908 in Berlin before the *Vereinigung für staatswissenschaftliche Fortbildung.*

was created for industrial activity on a large scale. The political unification of Germany after the wars of 1866 and 1870, the removal of restrictions on settlement and trade, and the liberation of the share law (*Aktienrecht*) from all its shackles, laid the foundation of Germany as an industrial State. The natural outcome was a rapid increase in the population of towns and a colossal increase in the building activity within them. Dearth of capital in this instance, too, formed a constant obstacle, and extensive mortgage credit was resorted to again. The tasks of the Prussian agricultural loan societies (*Landschaften*) were undertaken for town property by mortgage banks, of which a great number were established. Some of these banks, namely, those situated outside Prussia, extended the field of their operations to the country. The result, as can be seen in the following figures, was the indebtedness of landed property to the utmost admissible limits.

At the present time the following mortgage bonds are in circulation:

	Marks.
Mortgages of the "Landschaften" and similar corporations	4, 500, 000, 000
Mortgages of mortgage banks, about	9, 000, 000, 000
	13, 500, 000, 000
Prussian savings banks alone loaned on mortgage between 1905–6—	
On town property	3, 217, 229, 268
On property in the country	1, 882, 558, 357
	5, 099, 787, 625
Amount loaned on mortgages by non-Prussian savings banks, estimated in proportion to their other investments	2, 500, 000, 000
Mortgages of the German insurance companies, according to official statistics	3, 400, 000, 000
Total	24, 500, 000, 000

To this sum must be added the amount of mortgages in the hands of private persons, of which no official statistics exist, but which is estimated at 20,000,000,000 to 25,000,000,000 marks, so that the total indebtedness of German landowners may be placed at 45,000,000,000 to 50,000,000,000 marks.

The above total is, if anything, too low, as, according to the official statistics, the Prussian public register of landed property, the additional registrations (of new mortgages, less those redeemed) from 1893 to 1905 amounted to 18,000,000,000 marks for Prussia alone.

Revenue and tax returns form, as a rule, reliable guides in the well-regulated German States for determining the limits of credit to be granted on landed property used for agriculture or for dwelling houses. The tax assessments of the "Landschaften" and the mortgage banks are, on the whole, so reliable for this category of landed property that no serious risk is incurred in lending amounts up to six-tenths of the estimated value, without reference to the personal solvency of the temporary proprietor, and that the granting of credit can be controlled from a central point situated at some distance from the property mortgaged.

This does not apply, however, to mortgages exceeding the limits already defined—for instance, to the second or third mortgages following those of the "Landschaft" or mortgage bank, in which the security originally existing may cease owing to devastation, accidents, irrational management, etc. Credit of such nature ought only to be granted where the character and financial status, etc., of the owner are well established, and where the manage-

ment of his affairs can be constantly kept under observation.

This also does not apply to property used for such special purposes that it does not guarantee uniform results to its owners' successors—for instance, theaters, large stores, factories, and other industrial establishments. For this very reason most mortgage banks do not grant such mortgages. The credit on real industrial property is consequently limited—thus an unused factory can only be regarded as a security up to the amount that the housebreaker will give for it, and the value of its site for building purposes. The issue of bonds (secured by mortgage) of industrial companies also is only justifiable in the case of works of repute the lucrativeness of which is independent of changes in management. Loans on building sites should only be granted by capitalists who are prepared eventually to take over the sites and who can afford to go without interest for some length of time on the capital invested. Failing this, the lender should at least realize that he is granting personal credit and not credit on real property.

The real property creditor (*Realcreditgläubiger*) not only possesses an immovable security that can not be exempted from seizure, but by the institution of the public register of landed property (*Grundbuch*) he has a certain "locus," and can always ascertain whether real property creditors are registered before and after him. On the other hand, whoever grants personal credit has to reckon with the facts that any real property possessed by his debtor may be already encumbered with debts, or that it may become burdened with debts later without his

knowledge; that personal property is subject to all kinds of sudden changes, and, above all, that in the event of insolvency he has to compete with creditors hitherto unknown to him, and with whom at the best he can only share and share alike.

From a rational point of view, therefore, personal credit can only be granted by a person in a position to constantly gauge and observe the monetary circumstances, the methods of management, trustworthiness, and solvency of the person seeking credit. The granting of personal credit can not by its very nature be schematized according to symptoms controllable at a central point, but requires decentralized organization. The German Reichsbank forms only an apparent exception to this principle, as, according to its statutes, it discounts bills that bear the signatures of three, or at least two, persons known to be solvent, and it operates throughout the whole of the Empire with its credit lists according to a certain routine. For, firstly, this purpose necessitates a decentralized network of about 500 branch establishments, and, secondly, the bill credit is limited to certain categories of the population possessing means which are easily gauged, and in isolated cases to fractions of the estimated means, these fractions diminishing the lower these means are in the scale. Even the Reichsbank is not able to include the "small man," peasant, or mechanic among those to whom it grants credit.

As a rule, the very nature of personal credit necessitates, in contradistinction to credit on landed property, a short term (*Kurzfristigkeit*). Not only the payment of interest but also repayment should be assured by receipts of the

debtor in the normal course of his business and within a reasonable space of time. Whenever the credit is renewed a fresh examination of the state and management of the debtor's affairs should take place. In cases in which personal credit is requested from the outset for a long space of time, satisfactory conditions and specal confidence in the debtor are sine qua non; as, for instance, when the working capital is advanced for a new undertaking until it proves profitable. Such credit forms an exception and ought only to be sparingly granted by credit institutions, especially those which manage the money of other persons in addition to their own. A creditor who granted the majority of his clients long-term personal credits would most probably incur bad debts and would have to exact usurious interest in order to obtain compensation for his losses. The usual rate of interest would not be an equivalent for the risk involved.

A compromise between credit on property and personal credit consists in credit covered by bail-mortgages (*Kautionshypotheken*) or by movable pledges. Pledges consisting of securities, or wares that can be stored, may be considered as equivalent to real estate as a basis of credit. These different kinds of credit will be dealt with under the branches of banking business. Other pledges such as furniture and fittings, machines, utensils, tools, raw materials in the process of manufacture, semi-manufactured goods, and in particular everything that must remain on the debtor's premises, e. g., the stock and stores with the constant additions thereto and sales therefrom, are of less value and are frequently only illusory

securities; the more so as it is very difficult to distrain on such securities for debt.

It is evident from the above that the landowner, the mechanic, or the middle-class tradesman can obtain personal credit only to a limited extent unless he possesses available property in securities apart from his occupation.

Under normal circumstances the farmer ought only to resort to such credit temporarily in order to strengthen his working means during the tillage and harvest seasons, for the purchase of lean stock, and for procuring materials for industrial subsidiary works, and ought to repay the amounts advanced in the autumn or winter. The same applies to small tradesmen and mechanics during the buying and selling seasons. In such cases the local banks and trading firms that purchase the products, or supply materials to the borrower, figure mainly as lenders, for they are able to form an opinion of the borrower's position, can control the repayment of the loan, and can procure means for granting credit exceeding their own capital from provincial and metropolitan banks. For example, the Berlin banks supply, through the agency of local bankers, the cattle-breeding districts of North Germany with several millions of marks annually during the purchasing season for lean stock. In the eastern provinces of Prussia the banks and loan companies founded by the "Landschaften" render good service to the farmers.

The greatest importance, however, must be attached to the gratifying development of the coöperative system (*Genossenschaft*) during the last few years. As early as the end of 1906 there were 15,602 credit associations (*Kreditgenossenschaften*) in Germany, representing a

credit organization with numerous branches and central offices scattered almost over the whole of the flat country.

The central offices that come chiefly under consideration are:

1. The "Preussische Central-Genossenschaftskasse."

2. The "Reichsverband der Deutschen landwirtschaftlichen Genossenschaften" at Darmstadt, and the Agricultural Coöperative Bank (*Landwirtschaftliche Genossenschaftsbank*) in that town.

3. The Agricultural Central Loan Fund (*Landwirtschaftliche Central-Darleheskasse*) at Neuwied.

4. The General Union of the Schulze-Delitzsch Coöperative Societies (*Allgemeiner Verband der Schulze-Delitzsch'schen Genossenschaften*), for which the Dresdner Bank undertook the duties of a Central Bank after its fusion with the Deutsche Genossenschaftsbank.

Only the following figures need be quoted here:

The 5,685 coöperative societies (*Genossenschaften*) publishing balance sheets and controlled by the "Preussische Central-Genossenschaftskasse" possessed means of their own totaling 54,000,000 marks; the other means at their disposal amounted to 758,000,000 marks, making a grand total of 812,000,000 marks available for granting credit to their members.

The 1,016 Schulze-Delitzsch associations, working conjointly with the Dresdner Bank, numbered 598,314 members at the end of 1906 and possessed means of their own amounting to 273,000,000 marks, 983,000,000 marks deposits intrusted to their care, making a grand total of 1,256,000,000 marks, of which 1,056,000,000 marks was loaned out at the end of the year as credit advances.

Thus through the association of small isolated capitals, which in the aggregate made large amounts, an organization has been created perfectly capable of meeting the legitimate requirements of agriculturists, craftsmen, and tradesmen of moderate means. Through the agency of these associations the resources of the Reichsbank and the metropolitan money markets are placed indirectly at the services of these classes of the community.

For the above-mentioned reasons the credit granted on real estate (*Immobiliarkredit*) in trade and industry is less extensive than that granted to the owners of land used for agricultural purposes and of town dwelling houses. On the other hand, the conditions governing trade and industry are better adapted to the granting of direct credit by the large provincial and metropolitan banks. In Germany the number of large firms in question whose books are well kept and that draw up proper balance sheets is not so great as to preclude control, more especially as an admirably organized "inquiry system" exists which renders excellent service in this respect. Every bank has its own department for taking and keeping account of inquiries regarding every important firm, especially regarding joint-stock companies, mining companies, limited companies, etc. The information required is supplied in such a conscientious manner by business friends that it is seldom that the professional inquiry offices have to be called upon for assistance. Accordingly, the financial position, the business, and the average business profit can be gauged with some amount of certainty by the granter of credit; this applies, naturally, in a far greater degree to companies publishing

regular business reports, balance sheets, profit and loss accounts. Wholesale trading firms, as a rule, only convert a small amount of their capital into real estate, as the modern arrangements for transport and storage render warehouses necessary only in exceptional cases. The capital belonging to the firm and that intrusted to it for investment is kept disposable in the shape of wares and claims; can be seized by the creditors, and, in the case of insolvency, can be realized by the creditor in so far as the wares are salable. This applies especially to the so-called staple articles, i. e., articles used daily in large quantities, chiefly raw materials, such as cotton, wool, corn, maize, rice, petroleum, wood, copper and other metals, ore, etc. These articles, whether warehoused or floating (and represented by bills of lading), are regarded favorably as pledges, and money is lent upon them within a certain margin of their market value. The risk is less and the margin between loan and market price smaller in proportion as the differences in quality and fluctuations in price of the respective articles and the danger incurred by storage or transport are reduced. More money is lent on cotton than on coffee, more on corn than on lard or American meat. A dealer thoroughly conversant with his branch of trade and astute in selling and purchasing can convert his business capital into wares several times over without incurring risks exceeding his capabilities. Provided that his wares are stock articles that are always salable, he can by pledging them demand credit to an amount of several times his capital. Sureties for other credit can be given by securities, bail-mortgage bonds (*Kautionshypotheken*) on landed property of the

debtor, or on the security of relations or business friends. Credit without the deposit of securities, i. e., "blank credit," will have to be kept within the limits of the estimated or obvious property, and as a rule can only be obtained from a lender who, on the basis of reliable information, or previous business relations, is convinced of the trustworthiness of the debtor and the lucrativeness of his business. A banker granting this kind of credit generally makes the stipulation that his shall be the sole bank having relations with the debtor, so that the settlement of all transactions takes place with his knowledge and approval. The regular advantages of trade credit consist of the short period of the loan resulting from the very nature of the business transacted, which as a rule is settled within a few months, or within a season; whereby an opportunity is presented to the lender of severing the connection without loss should the position, or business management, of his client cause apprehension.

These advantages do not apply in the same measure to credit granted in industry. The prosperity of new enterprises is as much dependent on the state of the market and conditions of competition as on the soundness and excellence of the enterprise, and can hardly be estimated in advance even by experts. Further, in the event of the new enterprise flourishing, the profits can not be utilized at once for the repayment of credit granted; as a rule they hardly suffice for the necessary expansion and improvement of the concern. Hence, the lender (*Kreditgeber*) who has once become involved in an industrial enterprise is frequently compelled to increase the amount of credit given to an extent not originally anticipated, or

to share the credit granted with other lenders, whereby, however, a comprehensive view of all the conditions prevailing is rendered more difficult. It is very difficult, for example, to withdraw credit when business is decreasing without imperiling the debtor's existence, and a certain stigma always attaches itself to such a procedure. These reasons necessitate an industrial enterprise being better provided with capital of its own from the very beginning than is required in a commercial business, and the lender must possess sufficient means to be able to meet an increased demand for credit later on. Corresponding to the increased risk, the conditions under which the credit is granted ought to be more profitable, and the capitalist will frequently prefer participation through a share in the profit of the enterprise to demanding interest which might be regarded as usurious. Banks and bankers after much experience have come to regard such participation with suspicion, and are also loath to grant credit to new undertakings unless the participation of capitalists who have proved their merit in other enterprises offers them special guaranties. They prefer entertaining credit relations with older concerns that have already become regularly profitable, especially with dividend-bearing joint-stock companies whose publication of balance sheets invites confidence. This is especially the case if the lender happens to be represented on the board of directors of the company concerned, and is thereby cognizant of all important occurrences. Limited companies as a rule do not offer the same guaranties, and their credit depends on the trustworthiness of the persons participating, and eventually on the security of such persons.

The amount of personal credit to be granted to an industrial establishment must be gauged by the existing liquidable assets—that is to say, the raw materials, semi-manufactured wares, and finished goods, as well as claims for goods sold (debtors). These are the assets which, in case of insolvency and the winding up of the concern, could be turned into money for the benefit of the creditors.

A great distinction must be drawn, however, between manufactured wares for wholesale public consumption and goods that can be utilized only for special purposes, or fancy articles. The more remote the possibility is of immediate realization without a drop in prices, the smaller should be the amount of credit granted.

It is difficult to obtain credit on ladies' mantles, automobiles, and articles belonging to the trade in sporting goods. In those branches of trade where it is customary for the purchasers to pay for goods by bills, the manufacturer obtains discounting credit by negotiating the same. Where this is not the case the outstanding claims may justify "blank credit." In doubtful cases the creditor has some of the claims assigned to him. The amount of credit on landed property varies according to the situation and condition of the factory site and works and is obtained through mortgage loans, or, in the case of joint-stock companies, by the issue of registered debentures. Beyond this, security by mortgage or the registration of bail mortgages (*Kautions-Hypotheken*) is of dubious value. A cautious lender regards such as only a safeguard against distraint on the objects in question by unknown personal creditors.

It may be asked here, How can the above views be reconciled with the complaints frequent in the press and in Parliament that the credit granted to industry is too extensive, that money is advanced to industrials by credit banks not only for their existing works but for the extension of their works, and that an unhealthy expansion of industry is produced thereby? There is not the slightest doubt that among industrial speculators, especially among the inventors of new processes of manufacture, there are optimists who overestimate the chances of their projects and who through their powers of persuasion are able to infect lenders with their enthusiasm. Banks and bankers, having learned much from bitter experience, are more skeptical in this respect than private capitalists.

Despite this fact, bank directors have occasionally become infatuated with enterprises and inventions and burned their fingers. I need only recall to mind the seamless pipes of Mannesmann and the overestimate of the lucrativeness of small-gauge railways and similar episodes. Apart from such cases, however, the complaint urged is based on a false premise, by endowing the lender with a kind of responsibility and guardianship which borrowers would not submit to unless they were in a very precarious position; that is, deserved no credit at all. The usual run of the ordinary case is as follows:

The owner of some cotton mill, the real property value of which with machines, etc., is booked at 1,000,000 marks, on which there is a mortgage of 400,000, lays his balance sheet before the directors of a bank. According to his balance sheet he has a property of 1,500,000 marks,

raw materials and manufactured wares valued at 500,000 marks, outstanding claims for wares sold estimated at 700,000 marks; but on the other hand he owes creditors 300,000 marks for raw materials supplied. He applies for a temporary banking credit of 400,000 marks, his business profits amounting to 700,000 during the last year. The inquiries made are satisfactory, and there is no objection to credit being granted without further explanation, the liquidable assets exceeding twofold the amount of the credit demanded. Now, should a bank director conduct an inquisitorial inquiry as to what the credit is required for, the spinner would be offended and open up negotiations with some other bank. Further, supposing we assume that he has already had account-current transactions with the bank and he voluntarily tells his friend the bank director that he intends increasing the number of his spindles and must erect new buildings for this purpose. Is it the duty of the bank director to discourse adversely on the expansion of the cotton-wool industry during the existing state of the market and to advise the mill owner to wait until he can cover the cost of the increased number of spindles from the surpluses of his own profits? A lecture of the above description would probably terminate the friendship. An iron industrial would be still less inclined to put up with such objections if he deemed it necessary to reduce the cost of production by modernizing his works, by laying down new rolling plant or electric installations; the same applies to coal mines requiring a new shaft. In all such cases the lender's principal task is to determine whether the liquidable assets of the debtor

are sufficiently secure, even should the purpose for which the borrowed money is to be used turn out a failure or be unprofitable, and, secondly, whether the lender's own business situation permits of his increasing the amount of his loans. It is not incumbent on the lender to go beyond this and play the part of Providence. Consequently it is an erroneous view to hold banks responsible, not only for finding out whether they can grant credit safely, but also for the use made of such credit by the borrower.

The credit system of the State and municipalities at home and abroad still remains to be reviewed. This will be done most suitably in connection with the branches of banking business.

Various systems can be adopted in the banking profession for the transaction of business. The most lucrative method, at all events the one in which the power of large capital is most effectively turned to account, is that of the Rothschild firms, whose example was followed by many large private concerns at home and abroad. These firms avoid troublesome current business, maintain only a few connections, and concentrate their whole energies on isolated but important ventures and undertakings in which, owing to the large amount of means immediately required, no competition worth mentioning existed before the growth of capable joint-stock banks. Up to the middle of last century these firms actually possessed a monopoly so far as the loan issues of most European States were concerned, and they earned enormous profits according to present-day ideas. I read a short time ago in Minister von Manteuffel's very interesting memoirs a description of the difficulties encountered by Prussia in 1854 in raising a loan

of 15,000,000 thalers without the assistance of the Rothschilds. The Rothschilds had offered a rate of 92, minus 2 for commission, for a 4½ per cent loan, and the Minister of Finance at that time, Herr von Bodelschwingh, had great trouble in breaking off the negotiations in question opened up by the cabinet council (Niebuhr). In the course of the last decades, however, this monopoly has been done away with so far as European States are concerned and only prevails to a limited extent in some foreign countries. Since that time the Rothschilds have devoted themselves to several large industrial enterprises, such as the Russian naphtha industry, the Spanish copper and quicksilver mines, etc. Their system had the advantage of lucid arrangement which enabled principals to carry on business with a small staff in small private offices—i. e., with a minimum of business expenses—and, further, with the advantage of constant readiness for gigantic transactions with high profits whenever such transactions could be effected. Even to-day it is a most profitable business to sell shares of the Rio Tinto mines, which they control, at high rates during a boom and to purchase them after prices have fallen, an event that happens every few years or so. On the other hand, the system has the disadvantage that between the opportunities for such transactions long pauses intervene in which the enormous capital can only yield a small amount of interest if it is to be kept liquidable, and that very large means are required to bear the losses that may occur, and which actually do occur, in such enormous business operations. Consequently the system can not be employed by joint-stock banks paying regular dividends, quite apart from the fact that constantly growing competition has

very much lessened the opportunities of effecting single business transactions to which a large profit is attached.

Another system consists in the division of work and specialization, customary in England, but which has been frequently abandoned of late. In England the issuing and syndicate business is carried on by special houses which, like Rothschild, do not call themselves bankers, but merchants. Brokers and jobbers carry on stock broking on the stock exchange and in the open market, the former (theoretically at least) on account of third persons and the latter on their own account. It is the exclusive business of other firms to place credit at the disposal of home and foreign firms by giving acceptance to bills. These firms, strange to say, are mostly of German origin (Frühling & Goschen, Frederik Huth & Co., Kleinwort & Sons, etc.), and carry on business in such a reliable manner that they are allowed to enter into bill obligations amounting to more than five times their estimated means. The clearing and deposit banks manage moneys on account of third parties, investing them partly in securities and collateral loans and partly in bill broking. They allow their customers to draw cheques on them but claim in return the use of considerable deposits on which no interest is paid. This latter is a compensation for the management of the property concerned, so that some of the best known banks pay no interest on a large portion (sometimes over half the amount) of the money deposited with them. The provincial banks and London banks of recent origin do not conduct business through the clearing house; they do a deposit business, but also grant discount and other credit—"blank credit" as well as credit in the form of acceptances—to a

considerable extent. The competition of these banks caused the originally simple deposit banks to pay higher rates of interest and to reduce their stipulations as to the amount of capital on which no interest was paid, as well as to deviate from their former strict principles regarding the investment of money intrusted to their care, and to grant credit and bill acceptances against security, and occasionally "blank credit." Moreover, both these categories of banks place their means more and more at the disposal of issue firms, as well as of brokers and jobbers, by advancing money on their stock.

The advantages of the English system are obvious to German theorists who adhere to the strict principles of division of labor, while ignoring the frequent breaches of such principles. In practice, the system is disadvantageous to the business man in so far as he is compelled to cover his business requirements by transactions with several different firms and because commission rates and terms in every branch of business are higher than in Germany and consequently all banking transactions are more expensive.

In addition to this it must be noted that the division of labor and its operation are based on free business practice in England without any legal compulsion. Consequently, no opposition is offered in that country to the different methods of carrying on business employed by the so-called foreign banks, i. e., the numerous branches of continental banks, including the branch offices of the Deutsche Bank, the Dresdner Bank, and the Discontogesellschaft, despite the fact that their competition is unpleasant for the English institutions. Fortunately the

English, unlike our parliamentarians, are in nowise inclined to attack every supposed evil with legislative machinery and to make every new idea the subject of a parliamentary bill. In Germany, in consequence of business requirements and also of the small amount of capital in the country at the beginning of its modern economic development, the peculiar system has developed that credit banks combine all kinds of financial business (generally with the sole exception of mortgage-credit transactions), so that every customer can settle all his financial affairs in one spot on comparatively the cheapest terms possible.

Account-current transactions form the fundamental branch of business. The bank undertakes all the financial business of its client in return for a moderate commission on the turnover calculated on that side of the account which happens to be the greater, makes and receives payments, collects bills, checks, and other documents, and pays, or charges, interest on the balance, generally at 1 per cent below the Reichsbank discount rate for credit balances and 1 per cent above the Reichsbank discount rate for balances debited. The bank discounts the bills received by its customers, special arrangements being made as to the limit of the amount and terms, according to the quality of the bill, i. e., according to the trustworthiness of the other persons figuring on it. Should a customer require foreign bills to settle his liabilities abroad, i. e., checks or bills payable in the country concerned, the bank provides them from its own stock or draws bills or checks to the amount desired on its agents or correspondents in the country in question.

Should the debit balance not be a merely temporary one, or one soon covered by fresh receipts, the granting of special credit is necessary, and arrangements have to be made as to the amount and conditions of the same. Such credit is either covered or uncovered credit. The cover consists principally of current securities with a margin against the fluctuations according to the nature of the security, and which is higher for shares than for securities bearing a fixed rate of interest. In the event of the quotations falling, the cover must be increased or the credit reduced. Other cover given consists of bail mortgages, which are valued as quoted, or of the bond of a third person whose standing and solvency must be investigated with the same amount of care as if he were claiming credit for himself.

Uncovered credit is only granted in exceptional cases to others than business men—as a rule only to first-class mercantile firms of repute, whose affairs are in strict order. With prudent business management, the uncovered credit granted by a bank should constitute the best credit, especially as its withdrawal, if necessary, can be effected with the least trouble and without imperiling the existence of the debtor.

Bankers and other firms with large cash transactions keep a so-called "cheque" account at their bank in addition to the chief account (*Conto Ordinario*), in which no debit balances may occur; no interest is paid on the amount deposited, which is always kept in suitable proportion to the payments made, but, on the other hand, no turnover commission is charged.

In the cases where the turnover commission is adequate compensation for the trouble taken, deposits of securities, often very considerable in amount, are frequently taken charge of gratis or at a very moderate charge. The Dresdner Bank has charge of securities to the value of almost 2,000,000,000 marks lying in its vaults, not including those locked up in safes.

Further, the bank undertakes to purchase and sell securities for customers on commission, and if the price is not covered by cash in hand advances money for their purchase on the following scale:

The minimum average amount necessary, calculated on the basis of the daily rates, is (1) 10 per cent in the case of German securities bearing a fixed rate of interest; (2) 20 per cent in the case of foreign securities bearing a fixed rate of interest; (3) 25 to 33½ per cent in the case of German shares; (4) 25 to 50 per cent in the case of foreign shares.

Full cover by another deposit is required as a rule for particularly speculative securities, such as gold shares.

Naturally, these regulations have to be applied according to each individual case. Should the customer be well known as a rich man, whose circumstances allow of his being granted "blank credit," no amount need be paid in. If the customer, however, is involved further than his circumstances admit, a stricter attitude must be adopted and new commissions declined. Should the margins already mentioned decline in consequence of a fall in the quotations, too rigorous a procedure is out of place and it is better to risk a small loss than to incur the stigma of treating customers inconsiderately. I can not refrain

from noting here that the speculative inclination of the general public to purchase securities beyond their available means is a real difficulty for bank managers, and forms a constant source of annoyance. The instructions in force at money-changing offices and bourse departments are, to the best of my knowledge, fairly strict everywhere, and at the Dresdner Bank it is forbidden, on principle, to give the customer advice or to recommend any particular securities; only impartial actual information in reply to questions concerning the conditions which fix the value of security is permissible. The general public, however, bothers the employee with "suggestive" questions and interprets the information given, especially if the rates have fallen, as advice. Similarly, in spite of all restrictive regulations, cases may occur where the answers and remarks of overzealous employees transgress prescribed limits. In account-current transactions, which, in the case of a great bank, may consist of thousands of single accounts comprising all lines of business and spread over the whole country (for instance, at the close of 1907 the Dresdner Bank had, in addition to 67,212 accounts at its exchange offices, 31,631 account-current customers at its main offices), it frequently happens that the total amount of the ready money advanced is almost equaled by the amount of deposits of other account-current customers, i. e., that an infinitesimal amount of the bank's own capital is employed on behalf of the account-current debtors. It follows that those customers are appreciated most who claim credit during their buying seasons, but who not only pay back the borrowed money during their selling

season, but who have balances to their credit. This is the case with a great number of commercial firms and in many branches of industry, more especially in Berlin. The seasons in different branches occurring at different times of the year, it follows that a large bank, with branches and connections in all industrial parts of Germany, has the advantage of a suitable distribution of accounts among all branches of trade, etc., and the best possible adjustment of its debit and credit arrangements. In addition to this, the periodical repayment of advances is a very reassuring factor, whereas in granting credit the whole year round the greatest caution and constant observation have to be exercised.

The debtors in a bank's balance sheet comprise not only those who have received advances of ready money but also those to whom the bank has granted credit by bill acceptance; the bill drawn by the debtor and accepted by the bank is discounted elsewhere. It is the duty of the drawer of the bill to cover it before it matures, and when the bill is accepted he is booked simultaneously as debtor to the bank under the date of maturity. The soundness of this form of credit is conditional on its being granted only to first-class firms at home and abroad, and on its being utilized only for genuine business transactions and not solely for money-making purposes. International clearance is effected as a rule by foreign firms and banks drawing bills on German banks and vice versa. In the wholesale-goods trade it is customary for the purchaser of goods on several months credit to instruct the seller to draw the bill on his bank instead of on him, as the seller can dispose of the bill of a well-known bank to better

advantage and more easily than the acceptance of a trading firm. The special domain of large banks, especially of those with branch offices at Hamburg, Bremen, and London, is the financing of the transatlantic importation of raw materials. This financing is effected throughout the whole world by opening bill-credit accounts, and can only be undertaken by banking firms whose bills are known to be first rate and gladly dealt in to large amounts. Our aim for decades, viz, to obtain for the mark bill the same recognition as for the pound sterling bill, is being gradually accomplished. Nevertheless, at the present time it is still necessary in some countries of South America, in Australia, and in Asia to open up reimbursing credit in pounds sterling and to place the bill at the disposal of the London agency. In order to explain the peculiarities of this reimbursement of goods I will take as an example the cotton-import trade via Bremen, in which goods to the value of 500,000,000 marks are dealt in every season.

The bill-credit account is opened up for the Bremen firm and the latter instructs its commission agent in North America to allow the sellers of the cotton or their bankers to draw to the amount of the purchase price on the Bremen firm's bank in Germany. The bill, together with the dock warrants or bills of lading, passes from hand to hand in America and is sent by its holder, after shipment, to the bank in Germany for payment. The bank possesses, therefore, at the time that it takes over the liability arising from the bill a certain guaranty in the bills of lading, which represent the property right to the floating wares; in addition it also possesses a proof that a business transaction corresponding to the statements of the import-

ing firm has actually taken place. The goods arriving at Bremen can not be unshipped without the consent of the holder of the bills of lading. In discharging cargo, however, the bills of lading are handed to the captain of the ship, and two eventualities are possible. Either the cargo has not been resold, in which case it goes into the warehouse and the bank receives the warrant as a fresh surety, or (the normal and more desirable case) the goods have been sold to a spinner, who either pays cash down or, as is usual in cases where a term of credit is agreed on, remits an accepted bill to the seller. In the second of these cases the real security has ceased and the goods are delivered "in trust" (*zu treuen Händen*) to the importer for forwarding; in other words "blank credit" is granted to him until the remittance has arrived from the spinner, which, in general, does not take long. The bill of the spinner is discounted at the bank which has granted the acceptance credit, and the amount is credited to the importer under the date of the bill's maturity, so that the bank is covered in good time before the bill it has accepted becomes due. The reimbursement transactions in importing sheep's wool from Australia, Cape Colony, and Argentina, corn from America and Russia, rice from eastern Asia, copper from America, ore from Sweden and Spain, totaling several milliards of marks annually, are conducted in a similar manner. These transactions are devoid of risk on two presuppositions, firstly, that the documents are not forged, and secondly that, during the time the goods are "in trust," the importer and the person purchasing from him do not become bankrupt simultaneously. Certain precautionary measures, which can not be de-

tailed here, may be taken to guard against such contingencies; nevertheless losses do occur, as was exemplified by events during the last crisis at Hamburg.

The banking business is worth trouble and risk only if it can be carried on more extensively than the capital of the banker himself would permit; that is to say, with the aid of the money of third persons. A French saying, often quoted by the late Bank Director Herr von Siemens, runs as follows: "Les affaires c'est l'argent des autres." The Deutsche Bank operates with deposits (*fremde Gelder*) to the extent of four times the amount of its share capital and reserves, and the Dresdner Bank to the extent of threefold its own capital. This money may be divided into three categories:

1. The balances of customers in account-current transactions which, as mentioned above, are operated by the banks as far as possible in such a manner that an equal balance is kept between the amounts standing to the credit of customers and the ready money advances granted to others. During normal times this aim is generally attained, whereas in times of business depression credit balances, and in times of brisk business debit balances, are largest. In account-current transactions it is held that, in the absence of any special agreement, each party has the right to terminate the arrangement without notice; that is to say, the customer can withdraw his balance at any time he likes and must make good a debit balance at any time that he is called upon to do so.

2. That of creditors other than those in account-current transactions; this category includes principally foreign States that intrust money at interest to large banks and

several first-class private firms, partly after and in connection with the issue of loans, and partly for the maintenance of funds in gold. Independently of the money regularly required for the payment of the coupons of loans placed in Germany, the amounts referred to are very large, and even at the present time, when for various reasons they have been reduced to a minimum, amount to several hundred million marks. Further, in the case of the property of home and foreign municipalities and of companies which are the results of loans issued and which bear interest until the period agreed on for their withdrawal, German States are in the habit of disposing immediately of the amounts realized by their loans. In addition to this, foreign banks and other institutions, inland provincial banks, mortgage banks, insurance societies, and private large capitalists are accustomed regularly to tender Berlin banks and first-class firms large sums at interest for fixed periods of time, generally terminating at the end of the month; these sums are occasionally offered without any instructions being given as to the method of their utilization; at other times they are accompanied by the definite instructions that they are to be employed in contango transactions whereby the rate of interest is dependent of the contango rates quoted on the exchange. Although, and not without just cause, German manufacturers are credited with considerable indebtedness, yet there are numerous joint stock and private companies in Germany in which not only balances destined for the payment of dividends accumulate, but which have considerable amounts of ready cash on hand; these are also put out at interest. For instance, in the

balance sheets of the Allgemeine Elektrizitäts-Gesellschaft the bank assets always stand very high and totaled 27,000,000 marks in the last balance sheet published. At the Dresdner Bank the creditors repayable at fixed periods were 216,000,000 marks at the end of 1906 and 126,000,000 marks at the end of 1907. From this it will be perceived that these credit items undergo comparatively great fluctuations.

3. The third category comprises the deposits, the nature of which call for a detailed explanation in consequence of the false ideas prevailing in reference to the same, not only among the general public, but also among learned writers. In the seventies when some German banks, following the example of Paris and London institutions, began to establish, in addition to branch offices in other towns, exchange offices (*Wechselstuben*) in various parts of Berlin, the main idea underlying the undertaking was to enable the small capitalist to place his spare capital out at interest, and to employ such capital in banking transactions. These exchanges were called deposit offices (*Depositenkassen*); the money received, deposits (*Depositen*); the books in which the receipt for the same was noted for the convenience of the general public, deposit receipt books (*Depositen-Quittungsbücher*). The endeavors made to render the institution popular and to make propaganda for its development led to the deposits being quoted separately in the business reports; efforts were also made to show a constant increase in their amount. It soon transpired, however, that the exchange office business, as long as it only yielded commission on the sale and purchase of

securities and interest obtained on the deposit money, was not profitable enough to cover the expenses, namely, rent, salaries of staff, etc. On the other hand, this limitation of business did not correspond to the requirements of the part of the town in which the deposit office concerned was situated, and the people of the district soon found it more convenient to transact the whole of their banking business at the exchange office instead of at the central office, a long distance away; to pay their cash into the deposit office at nighttime, instead of keeping it on their unguarded premises, and to withdraw it the next morning; to transact payments through the deposit offices, to discount their bills, conduct their security business, and to apply for credit there, etc. Consequently, the "exchange offices" of to-day are complete banking establishments with their own clientèle, transacting in some cases a large amount of business, the debit and credit items of which are not essentially different from those of the Central Bank; at the "exchange offices" all kinds of business are transacted with the exception of syndicate business, which is naturally reserved for the central institution. They also accept savings at interest from other than business people; but only a proportionately small amount of the so-called deposits bear this character, especially as on an average the "exchange offices" pay a considerably lower rate of interest than the municipal savings banks. It is only in times of abnormally high money rates, as during the last two years, that the "exchange offices" pay higher rates of interest than the savings banks and attract savings. The amounts temporarily in the hands of capitalists of

all descriptions, who desire to place out at interest repaid mortgage money, sums realized by the sale of securities, etc., until another opportunity for investment presents itself, do not bear the character of savings; neither do the sums paid in by officials in the shape of salaries and other receipts, which, although they are withdrawn during the quarter to supply ordinary requirements, are intended to yield a small amount of interest. The greater part of the whole of the so-called deposits consists of the temporary available working means of industrials, who desire to transact all kinds of business with the "exchange offices," and who consequently would not be able to derive any advantages from transactions with the plain "deposit banks" which German theorists have in view.

The manner in which the banks deal with the "deposit" item in their balance sheets varies widely; the Dresdner Bank, for instance, includes under this heading all the creditors at their deposit offices and exchange offices, and adds to them those creditors who have made at other offices payments that have been entered in the deposit receipt books, or amounts paid in under the express description of deposits. This same custom, I believe, is adopted by the Deutsche Bank. Other banks, including some that maintain a large number of "deposit offices," class the depositors and the other creditors together under one heading. It is asserted, again, of other banks that they call credit items with fixed periods for repayment "deposits," and understand "other" creditors to signify those that have to be repaid at a moment's notice; this last system I consider misleading.

If we turn to the question how a bank operating on a large scale with money intrusted to its charge ought to invest the same, it is clear that as against the liabilities that the bank can be called on to pay daily there should be a corresponding amount of easily and rapidly realizable assets, and that for the liabilities payable at certain dates assets should be apportioned that are as far as possible realizable at the same date. It would be just as absurd to require a bank, which uses the funds intrusted for the purpose of obtaining interest, to be always prepared to repay all its liabilities as to require the Reichsbank to be always prepared for the simultaneous presentation and redemption of all bank notes and for the simultaneous withdrawal of all account-current (*Giro*) balances. As is well known, the bank law only prescribes that at least a third of the notes in circulation need be covered by cash and does not require the account-current balances to be guaranteed by any special cash cover. The most "liquid" (immediately realizable) resources that come after the amounts in cash, bank notes, bills, and checks payable at sight, are supposed to be the so-called "Nostro" assets of a bank at inland and foreign banks, and at banking firms the contango and bill amounts in hand.

The "Nostro" assets are deposited with absolutely reliable debtors who are prepared for repayment at all times. The contango business consists in carrying over stock bargains concluded for a certain period by the bank buying the stock at its current market price on settling day and selling it to the speculator again at the same rate on the next settling day; during the period

that elapses, the bank profits by the interest on the amount in question. Business of this nature is only transacted with reliable firms who stand ready to take back the stock on the next settling day even if the market price has sunk considerably; further, only standard stock of the exchange which can be sold in large amounts at all times is dealt in. The money invested in this manner, therefore, is recoverable within a month at the latest. Even in the rare case of the customer becoming insolvent the risk incurred by a fall in the market price is a limited one when the nature of the stock is taken into consideration. During the period that the injurious bourse law and the prohibition of "future" or option business in industrial and mining stock were in force, the contango business in Germany, unfortunately, was very limited; at the present time under the new law it is most probable that the contango business will assume greater dimensions and contribute toward the easiness of money conditions. Meantime the contango business abroad, especially that carried on in London, was a desirable makeshift for the banks with branches in London, for, as a rule, the transactions are fortnightly ones there, per medio and per ultimo, and the money is available again at the end of fourteen days.

The bill portfolio of the bank comprises the bills discounted for the clientèle in account-current and other transactions, and the bills purchased at home and abroad at the private discount rates of the Bourse. Foreign bills form a very valuable portion of the contents of the bill portfolio as well as German first bills of exchange, realizable all over the world; being stock payable in gold cur-

rency they are in request by foreign establishments and companies, and more especially by foreign banks of issue. With the exception of the Bank of England and the Banque de France, which do not stand in need of it, the banks of issue of most other European countries maintain regular connection with the German Great Banks; the possibility of discounting bills abroad without having recourse to the German Reichsbank is of considerable importance during critical periods. The bill department is managed so that the dates of maturity (which never exceed three months) are judiciously distributed over the whole three months and that relatively large amounts mature on the "heavy" settling days (quarter days).

In most of the German Great Banks that come into consideration the liquid resources already enumerated (apart from securities and lombard advances made on goods) represent about two-thirds of the total sum of other people's money (*fremdes Geld*) intrusted to the bank's charge; the bill portfolio alone exceeds the total amount of deposits.

The principle is also adhered to of not allowing the total amount of the tied-up assets, viz, the assets that are very difficult to realize, such as bank sites, permanent participation in outside banks, the syndicate account, and the account of the bank's own stock, to exceed the bank's own capital, plus its reserves.

The syndicate transactions of the banks comprise, above all, the floating of home and foreign government and municipal loans. Overproduction has been prevalent in German State loans during the last decades, and it has stood in an inverse proportion to the inclination of the general public to participate in loans. The first mistake made was

Miquel's conversion of the 4 per cent State funded debt (*Staatsschuld*), which displeased the general public and which dislodged that particular stock from the firm position it had previously held. The German public regarded the 3 per cent and the 3½ per cent loans with distrust even at a time when their market rates were very low, and this distaste was strengthened by the fact that each succeeding annual issue was placed on the market at a lower issue price and led to further falls in the rates. Since the 4 per cent type, which conforms more to the customary rate of interest throughout the country, has been adopted, it is to be hoped that the public will take a greater and permanent interest in these loans. Such loans, however, can only be well placed out, and the rates of interest can only develop satisfactorily, provided the market is left undisturbed for a certain length of time. These loan transactions have for years been mostly a source of loss to the banks, apart from the fact that the banks have always contributed a portion of their deposits toward the subscriptions.

The loan policy of the municipalities is also a ground for serious misgivings. Every burgomaster believes that he has mistaken his calling unless he borrows millions of marks every few years for new abattoirs, drainage purposes, for erecting or acquiring electric works and tramways, and even for paving and schools; these loans have to be met from current receipts. Any one who is acquainted with the large provincial towns in France and England, not to speak of other countries, must admit that, so far as public institutions are concerned, they are far behind German middle-sized towns. The question arises, however, whether Germany is rich enough

and whether the taxpayers are not too heavily burdened to allow us to outdo foreign towns at the rapid pace hitherto maintained. In any case the market has been so overrun with municipal loans that every new issue is regarded with apprehension, and the banks are compelled to maintain the greatest reserve in this direction.

The participation of the German banking community in foreign government and municipal loans is often regarded in circles not connected with business as undesirable and sometimes as dangerous to the national welfare, on the ground that the German money market is thereby weakened and its capacity for absorbing home government stock is prejudiced. Even German Ministers of Finance have been inclined to view the question from this standpoint. The Imperial Chancellor and the Minister of Foreign Affairs, however, have always held a different opinion, and have recognized that it is imperatively necessary for the international position of Germany, for German export trade, and consequently for the development of Germany's merchant navy, to compete with England and France in lending money to foreign and transatlantic countries. The foreign office has frequently stimulated the German banks to enter into competition for Italian, Austro-Hungarian, Turkish, Roumanian Servian, Chinese, Japanese, and South American loans. Even when the banks are approached from other quarters the first move made is to ask the consent of the foreign office for carrying on such negotiations. If the consent is given, then ministers, ambassadors, and consuls frequently support the representatives of the German banks by word and deed. The campaign of Bismarck against Russian securities, some-

times used as an argument against the banks, only proves that in the political conjuncture existing at that time Bismarck considered a move to hold Russia in check advisable. Moreover, Bismarck was the inaugurator of international policy in financial spheres, and at other times he energetically promoted the participation of German firms in Russian Government transactions.

I shall refer later on to the economic importance of a strong German ownership of foreign securities (*Werten*), and will only point out here that if Germany did not grant credit to foreign states she would lose her export business. For as, with the exception of kali, Germany produces hardly anything which can not be supplied by other countries, she has a hard fight to retain her export trade.

Transactions with foreign countries and municipalities are as a rule more lucrative, for, in contrast to home business, a margin remains between the rate at which a loan is taken over and the rate at which it is issued, which stands in proper proportion to the trouble and risk incurred; in addition, other advantages are involved in the issue of the loan, such as interest transactions, the negotiation of contracts, commission on coupons, etc. Naturally such business is limited by the inclination of the German public to subscribe to loans. This again depends on better terms of interest being offered than it is possible to obtain on home securities. During periods when the rate of interest is considerably higher in Germany than in England and France, Germany can not compete with those countries; consequently during the last few years Germany has had to give way. All the

same, several well guaranteed loans have been concluded and subscribed for in Germany with various transatlantic countries on the basis of about 5 per cent interest.

Other syndicate transactions (*Konsortialgeschäfte*) include the taking over of shares, or bonds, of industrial companies, either in connection with the formation of the same or with an increase in capital. So far as newly formed companies are concerned, the bad results experienced during a series of years have led the banks to confine themselves as a rule to conversions of existing prosperous private undertakings into joint-stock companies and to cooperate in fusions and in increasing the capital of existing companies. They hold aloof, however, as much as possible from investing money in perfectly new undertakings and from financing new methods of manufacture or inventions. It has also been recognized that bank directors are fully occupied with the management of their respective banks and with guarding their banks' interests in trusts and on the board of directors of companies with which the banks are connected; this, together with lack of time and expert knowledge, does not allow of their simultaneously managing industrial establishments. The advice and the cooperation of manufacturers, who, although successful in their own businesses, are also absorbed by them, do not offer sufficient guaranty for the prosperity of other projects they recommend. The numerous prospectuses of inventors, financial agents, and manufacturers whose capital is low, who can not find the necessary capital to carry out their projects, and who appeal to us with flattering allusions to the omnipotence and the industrial missions of banks,

are scarcely read and find "buttoned-up pockets everywhere."

It is, however, scarcely possible to treat the various kinds of syndicate businesses technically and in detail within the limits of these remarks. They include all kinds of business, such as land transactions, which are sometimes undertaken by a number of banks or bankers, conjointly, as well as sometimes with the cooperation of private capitalists.

If a number of debentures, or an amount of stock, is taken over by a single bank, the transaction forms a "stock transaction" on its own account and not a "syndicate transaction," and must be entered in the stock account. The bank sometimes acquires its own shares, either to dispose of them at a profit as soon as possible, or to invest at interest money that is temporarily available. The stock that remains on hand after issues, or after the dissolution of syndicates, is generally an undesirable possession, to be gradually disposed of if possible. At times the bank is interested in excluding a "lot" of shares from sale when the issue is made, or in acquiring a "lot" voluntarily and independently of the issue, in order to obtain influence over the company concerned, or to insure a permanent connection with it. A bank which has issued shares becomes morally responsible for the future fate of the company concerned and is therefore compelled to attain a position in which it can exercise a certain control over the company. For the same reason it can not shirk the duty of regulating the rates for such stock. A bank, however, will only intervene in exceptional cases, and then only to a limited degree, in

order to avoid a heavy fall in the stock when demand is small and the supply great. Further, the purely speculative purchase of stock on the bank's own account must be confined to the narrowest limits. On the other hand, large turnovers take place for the purposes of arbitrage, that is to say, for the purchase or sale on one stock exchange, and simultaneous or nearly simultaneous resale or repurchase on another, of the same amount in the same stocks or shares. As only fractions of percentages are involved, such transactions are of importance only if effected on a very large scale.

After having enumerated the various branches of the banking business, it only remains to discuss the tasks that devolve on a bank in view of all these transactions. It is not sufficient for bank managements to limit themselves to examining each single syndicate business, or each single credit transaction, as to its safety and as to the correct proportion between risk and profit; they must also decline good and desirable transactions if their own liquidity becomes endangered thereby. Bank managers have not only to provide adequately for the regularly recurring "heavy" settling days, quarter days, and years' ends, but they must constantly have in mind the possibilities of a political entanglement or a sudden crisis.

The manner of estimating liquidity pursued by newspapers and writers, already referred to, is based on the assumption that all liabilities in the balance sheet, namely, the bills accepted as well as the deposits and credits, require a cover. However, if prudence is exercised in granting bill credit, the bills are punctually met by the person to whom credit has been granted; further, the

simultaneous repayment of all moneys intrusted to the charge of a bank is just as out of the question as the simultaneous presentation of all bank notes to the Reichsbank. The liquid means—namely, cash, "Nostro" assets, bills, contango and lombard advances, as well as half the stock—are compared with the cover required, and the percentage is ascertained which the account current must contribute in order to cover about two-thirds of the total liabilities by liquid means. According to statistics, this requirement is fulfilled by all the German Great Banks.

In practice the whole calculation is valueless, as it is based on the assumption that the whole business is being realized because it is being discontinued. We bank directors reckon, similarly to the view taken in the Reichsbank law, that in case of a run of unprecedented dimensions, one-third of the whole money intrusted to the banks might have to be repaid within a very short time, and consider the chief question to be the manner in which we are to keep the means for repayment ready without embarrassing our credit customers by withdrawing their credit. We must have means available to about the extent mentioned, and as far as possible such means must consist of stock that can be realized all over the world and contango and first bills of exchange. We can then calmly await developments, having done everything that lies within the range of human calculation.

The economic life of a nation necessitates, in addition to an appropriate organization of credit and a sound system of banking, suitable means for the adjustment of home and international payments. Allowing for loss in

melting down and dispatch abroad, there is in Germany a gold currency amounting to 3,500,000,000 to 3,750,000,000 marks in coin and bars. There is the Reichsbank, to which is assigned the banking task of regulating the circulation of money throughout the Empire and of facilitating the adjustment of payments; the Reichsbank, however, possesses only a scanty amount of specie in proportion to bank notes when the increased requirements for business transactions are taken into consideration. Despite the most excellent "Giro" and assignment systems, which render the transport of large amounts of coin from place to place unnecessary, large amounts of ready money are still indispensable in business transactions; thus, the endeavors of the Reichsbank to withdraw gold from inland circulation have met with but small success hitherto. Whether the attempts recently prosecuted with great vigor to substitute bank notes and treasury bills (*Reichskassenscheine*) of small value for some of the gold in circulation will be permanently successful remains to be seen. In my opinion these notes ought to become popular, suitable purses ought to be manufactured to carry them in, and they ought to be used for paying wages. The check has become a popular institution in transactions between banks, bankers, and business people, and the introduction of the check law will be beneficial. Whether, however, the general public will make an extensive use of checks is doubtful. In England the conditions necessary for check transactions exist, as everyone has a banking account, and all payments to be made or received are effected through the banks. Every holder of an account keeps a balance to

an amount corresponding to his requirements at the bank, which sum either bears very low interest or none at all; thereby, and through other turnovers subject to commission fees, the bank is adequately recompensed for the trouble and expense of keeping the accounts. To Germans all this seems very strange; a large part of the public can not keep a banking account, and when it is in a position to do so either expects high rates of interest or keeps no permanent balances and pays no commissions. Under such circumstances there is no sense, from a business point of view, in the shoemaker, who has no banking account, accepting a check, which he has to cash, instead of ready money; for the shoemaker has to take an unprofitable walk, and the bank has to examine the check, pay and book it, and in some cases notify by letter the customer of its payment. The ingenuous idea prevails that by some cabalistic method of procedure the bank earns something by such transactions that in reality only cause irksome work.

Another disadvantage with which Germany is saddled, and which does not exist in other countries, is the enormous accumulation of payments on quarter day. The craze displayed after 1870 for uniformity did harm in abolishing the multitudinous dates for the payment of rent and interest and in substituting quarter day as the date of all payments of coupons, salaries, mortgages, etc., instead of the "Johannistag," "Martini," "Michaeli" customary in numerous districts. The house owner who receives his rents quarterly does not want to pay his mortgage interests at any other date. The tenant who receives his salary, etc., on quarter day does not want to pay his rent

at any other date. Further, a change in the date for the payment of coupons is open to objections. States and municipalities, which have trouble enough in getting their loans subscribed for, have no desire to render the issue of the same more difficult by fixing the dates for payment of the coupons at times to which the general public is unaccustomed. Consequently on quarter days untold millions in bank notes and ready money for redeemed and newly raised mortgages, rents, and other payments wander from hand to hand, only to return after a few days, in a roundabout way, to the same places where they have been made liquid (available). Such conditions are impossible in other countries, as mortgage debts do not exist to the same extent, and, as for instance in England, living in rented houses is not so prevalent. A slight remedy has been introduced in Germany, however, in the shape of a clearing house for mortgage banks, which is under the supervision of the Reichsbank.

As a result of the Bank Inquiry Commission, it was said that a radical proposal was about to be made to the effect that the Reichsbank should refuse to discount bills or make lombard advances on quarter days beyond a certain amount corresponding to its existing position. By doing so, however, the Reichsbank would abandon its raison d'être as well as the task devolving on it of facilitating the adjustment of payments. For a central note-issuing institution, with privileges such as are accorded to the Reichsbank, is useless if it can grant credit and issue notes only during periods when business is quiet; for such purposes even the deficient note-issuing banking sys-

tem of the United States would suffice.) It is just at heavy settling days and during crises that the Reichsbank must prove itself capable of fulfilling its purposes. It is in the latter sense that the Reichsbank has viewed its tasks, and has fulfilled them amply. Germany's success in overcoming the serious crises of 1901 and 1907 without permanent injury is principally due to the bold attitude maintained by that institution.

Another reform proposal is also being made, namely, to relieve the Reichsbank from keeping a gold reserve for the whole country and to impose on the credit banks the duty of keeping a sufficient reserve in ready money for their business transactions. This would lead to a complete revolution in the existing Reichsbank policy and would render the present situation considerably worse. From the first it has been the chief aim of the Reichsbank to become the cashier for all money transactions, not only of banks but also of commercial and industrial firms, of state and municipal funds, of railway and military funds, for the post-office, etc. It has been the constant cry for ages that all the above institutions ought only to keep the necessary amount of ready money for daily use in hand and to pass the balance of money received on to the Reichsbank to fill its coffers, from which each institution can cover its requirements as needs may be. The government authorities have been reproached in the most severe terms for the bureaucratic business method of allowing gold and silver to remain idle for weeks in the state coffers whilst the means of circulation are scarce in the country. Therefore, send all the available money to the Reichsbank and only with-

draw it at the moment that it is required for payments falling due. This is the method adopted by the banks to-day. Every piece of gold that they receive as a deposit or otherwise is directed toward the Reichsbank by the most speedy route. The safes of the banks contain only what is absolutely necessary for daily use, and their other cash lies as account-current balances (*Giroguthaben*) in amounts that considerably exceed the minimum balance prescribed at the Reichsbank. All amounts forwarded to the banks from abroad are transferred to the Reichsbank by means of "Girokontos," and the amounts for bills discounted at the Reichsbank are not paid in cash, but placed to the credit of the account-current balance (*Giroguthaben*). Likewise, all payments that the banks have to make are turned in, whenever possible, to the account-current account of the receiver, so that payments in ready money are reduced to a minimum. Banks only withdraw amounts from their "Giro" account for payments that can not possibly be made in any other manner. The aim is now to go further and extend check transactions to private circles. Hoarded money is to be attracted out of purses, writing desks, and old stockings, and directed toward the general gold reservoir at the Reichsbank; and yet in the face of propaganda for this development, the banks are now recommended to act otherwise! They are to store up the money necessary for future liabilities and keep it away from the Reichsbank. The amounts in gold which, despite the above-mentioned efforts, are retained by the public in circulation, are kept out of reach of the credit banks. The ready money placed in their safes over and above that

required for daily use will have to be taken solely from the Reichsbank; and if they were to keep the reserve desired by the reformers in bank notes and not in gold, they would only increase the bank-note circulation of the Reichsbank prematurely and without advantage, and in consequence prematurely impair the status of the Reichsbank.

Another view of the matter leads to a similar result. If every bank aims to keep an independent reserve so that it has no need to fall back on the reservoir of the Reichsbank in case of emergency, it has to take the worst eventuality into consideration—namely, a sudden run—and keep a very large reserve. In keeping the reserves of all banks at the Reichsbank, a procedure adopted since its establishment, the simultaneous occurrence of abnormal payment conditions, or errors in the disposal of the resources of all the banks, is not anticipated. The money reserve it maintains, therefore, can be much smaller than the total of the reserves maintained by the single banks would have to be. On this fact, which is part of the A, B, C of national economy, the advantage of the existing system of payment is based, namely, the greatest saving possible in currency—a point which is of the most vital importance for all countries, especially for Germany with its proportionately scanty amount of gold.

The regulation of international payments is still more difficult than of those at home. This must be done in detail mainly by the credit banks, whereas the Reichsbank has to control the same by means of its discount policy, and if necessary to settle the same by furnishing "Devisen"

(bills and checks payable abroad) or gold from its own stock. A chief factor is the balance of trade for which statistics, carefully prepared but not always free from errors, are available. Germany has, for years, belonged to the rich industrial countries, which, like England, France, Belgium, and Holland, always possess a "debit" commercial balance, whereas the countries that principally export raw materials, like North America and Russia, have a credit balance of trade. Austria-Hungary was a creditor nation up till the end of 1906, but in 1907 imported slightly more, so far as value was concerned, than she exported

The debit balance in Germany—that is to say, the excess value of imports over exports—has grown rapidly during the last few years, from 1,131,000,000 marks in 1904 to 1,728,000,000 marks in 1907, whereas in 1907 England's debit account was 2,609,000,000 marks and that of France only 409,000,000 marks. In England, however, the debit account has decreased during the last few years from 3,671,000,000 marks in 1904 to 2,609,000,000 marks in 1907.

In order to illustrate my remark that the balance of trade statistics contain errors, I should like to point out the following: From a statistical point of view all goods sent across the German frontiers abroad are regarded as exports, and it is assumed that the counter value for these exported goods consists in payments to Germany by foreign countries. Now, numerous undertakings have been founded abroad with German money, and the machines, materials, and other wares exported for them are not paid for by foreign countries. The Chantung

Railway in China is constructed with German money and of German materials. The export of the materials figures as a "credit" item in the statistics, whereas in reality it is a "debit" item for Germany. The Deutsche Ueberseeische Elektrizitäts-Gesellschaft has constructed various tramways and electric central stations in South America with German money and of German materials. I could adduce dozens of similar cases, whereas the contrary case, according to my observation, seldom occurs. The times when English and French capitalists worked mines and carried on gas works and waterworks in Germany are past. I conclude, therefore, that the German trade balance sheet is very much more "debit" than has been stated. The same probably applies to the English one.

The question as to how Germany can pay to foreign countries her liabilities resulting from the balance of trade opens up the question of the balance of payment. At this point statistics fail us and very complicated estimates begin, which are extremely difficult and which only economic experts, perhaps the heads of banks standing in the center of international business, are competent to form.

I will show, with the aid of an excellent essay by Professor Schaer, of Berlin, and by enumerating the conceivable "credit" and "debit" items of a trade balance-sheet, how intricate the material is which comes under consideration.

Among the "credit" items is the money paid by foreign countries for carriage on German railways and for freightage on German merchant ships; for profits, commission,

and brokers' fees to German commercial firms; the premium to German insurance companies, etc. "Debit" items are similar payments made by Germany to foreign countries. The balance of these items forms a considerable debit account for Germany in her relation to England, which, so far as other countries are concerned, is of a credit nature; thus the total balance constitutes a credit account. The results of German speculation on foreign bourses may be either "credit" or "debit." Owing to great losses on gold shares and American securities the result during the last few years has probably been a "debit" item which, calculated for a number of years, probably exceeds a milliard marks. The speculations of foreigners on German bourses have been of no importance of late years, so that no returns worth mentioning, not even for stamp duties or brokerage, have been received.

It is evident that the receipts of persons living in Germany derived from foreign undertakings are greater than the receipts of people living abroad from undertakings in Germany. The domicile and nationality are of no consequence; the profits obtained by Germans living abroad can only be of advantage to the German balance of payment if they are brought or sent to Germany.

The balance of the traffic (passenger) account is probably a " debit " one for Germany, as more Germans travel abroad than foreigners travel in Germany, and they spend abroad more than the foreigners do in Germany, for whom the American millionaire can not pass as a sample.

The savings sent home by foreign engineers, clerks, agents, and workmen residing temporarily in Germany

constitute an important "debit" item which must exceed the corresponding "credit" item. Inheritances abroad devolving on Germans probably annually equal property in Germany that foreigners inherit.

The most important item of the payment balance-sheet is formed by the interest and dividends on foreign securities. Germany has in this respect a considerable "credit" item in her favor, for Germans possess far more foreign stock than foreigners possess German stock. Of the last mentioned item probably 500,000,000 marks worth is in French hands, partly in the shape of deposits kept in Germany; a far smaller amount is in English, Dutch, Austrian, and Swiss hands; all in all, the amount is not much more than a milliard marks. During the last decade the amount of foreign securities, etc., belonging to Germans has decreased through an outflow of Italian, Austrian, Hungarian, Scandinavian, and Turkish securities, but has increased, on the other hand, by the acquirement of American and East Asian stock. The diminution in Russian securities is almost compensated for by the participation in the new Russian loans. The total value of foreign securities in German hands is estimated at about 12 to 13 milliard marks, so that the surplus interest and dividends flowing into Germany above the interest and dividends going out of the country may be estimated at about 600,000,000 marks. This is a considerable sum, but by no means sufficient to balance Germany's liabilities for imported goods.

The management of the issue of foreign shares and debentures, or the participation in such, constitutes a non-recurring "debit" item, since the results (*Gegenwerte*)

from German resources have to be remitted abroad. As the value received (*Gegenwerte*) in the case of foreign government loans is allowed to remain in Germany for some time while bearing interest, the settlement can be distributed over a long period. The small extent to which foreigners participate in German issues is in no way an equivalent for the above. The non-recurring "debit" item, however, is the source of future interest receipts, which figure in balances of payment later on as permanent "credit" items.

Should the factors mentioned above lead to a "debit" balance in the payment balance-sheet there are various remedies for the same. In such cases an unfavorable state of the bourse rates, accompanied by a marked tension in the home money market, invariably occurs, a circumstance which causes the Reichsbank to raise the bank discount. The relatively higher rate of interest in Germany, which even in normal times induces foreigners to keep their means in German banks, offers then an increased inducement, and, as a rule, enables the banks to attract more money from abroad. Matters, however, may turn out differently. For instance, a money crisis appearing simultaneously in other countries will cause general lack of confidence; and then, as happened last autumn, it not only is impossible, despite repeated raising of the discount rates, to attract money from abroad, but the old deposits have to be repaid. There are in such cases only two ways out of the dilemma. Either the capital is drawn on and as much of the stock of foreign securities is sold as is necessary to pay off the debts, or the debts abroad are paid in gold, which, in so far as it is not taken from the

money in circulation, is supplied by the Reichsbank from its stock. The latter procedure was adopted in Germany at the end of the year before last and about 200,000,000 marks was withdrawn; herein the banks were for the most part successful in obtaining the greatest amount from the money in circulation, the reserves of the Reichsbank not being resorted to in any great measure. Had this gold not been forthcoming, German currency would have been compromised for some long time, German prestige abroad injured severely, and unforeseen evils entailed.

It is evident from what has been said that it is both useful and necessary for a country aspiring to a position in international business to maintain permanently as large a stock as possible of good international securities, to increase its foreign claims by developing its export trade. This is still more important for Germany—which is compelled to pay several milliards annually for the importation of raw material to feed the nation and for industrial production—than the further expansion and improvement of its productive works, and than increasing its home consumption; for whoever increases his requirements without first paying his debts from receipts lives on his capital and must be economically ruined. This applies not only to private domestic affairs but to the economics of nations.

III.

METHOD OF PAYMENT BY MEANS OF BANK-ACCOUNT TRANSFERS AND THE USE OF CHECKS IN GERMANY.

By Max Wittner—Berlin, Barrister, Director of the Central Union of German Banks and Bankers, and Siegfried Wolff—Tübingen.

I.

The Recent Development of the Mechanism of Payments in the Empire.

The development of the system of payments without the use of cash has been essentially different in Germany from what it has been in other countries, both with respect to time and to form. It has been different with respect to time because there was no room in Germany for a vigorous development of the mechanism for effecting payments until long after England and France had perfected theirs, owing to the fact that the economic, as well as the political, development of Germany prior to the founding of the Empire was prevented by lack of unity, the scattering of the nation's energies, and the general disorganization from pursuing a systematic path, subordinated to considerations of a national character. It was different with respect to its form and nature, because it was only with the growth of movable capital, its rapid increase in the early years of the Empire, and the flourishing stage to which German banking could now for the first time attain that it was possible for the sense of economic oneness and solidarity to take shape and to manifest itself in such a manner as the establishment of the Reichsbank, or Imperial Bank

of Germany. This institution, with a creative and organizing spirit, laid the foundations of the system of payments by means of transfers to, and deductions from, accounts current that obtains in Germany, the so-called "giro" system. It was in every way preordained for this creative work, for at the time of its foundation it was the only financial institution whose activities extended over the whole Empire, while in the territorially restricted and immature banking system of those days the conditions were lacking for the development either of a giro business or of a system of payments by means of checks. The private banks had not yet grown to the status of great organizations, with many branches, affiliated banks, etc. Berlin was not yet by any means the great center of financial operations. In the giro system, with its splendid organization, the Reichsbank has created an institution that has given the German system of payments its characteristic stamp, just as the apparatus of checks and clearing houses has imparted a typical character to the system of payments in other countries, like England and the United States. The giro business in Germany is far from having attained the dimensions that the use of checks has in England and America. It ought, therefore, with the economic development of the country, to be fostered and continually extended by bringing more and more places within the giro network. It should be popularized by inducing an ever-increasing number of those engaged in business to avail themselves of it, and by getting the public authorities to appreciate its advantages.

The system of giro transfers has undeniably considerable advantages over other means of effecting payments without the use of cash. It is the simplest from the technical standpoint, in that it involves merely the transfer of a particular sum from one account to another on the books of the Reichsbank and entails the least expense, trouble, and loss of time, and because, by virtue of this latter quality, it is especially adapted for effecting settlements involving very small sums for which a payment by check would not be so well suited. A necessary condition for a monetary settlement by means of the giro is, of course—and in this respect it is at a disadvantage as compared with the check—that the payer and payee have an account in the same bank or else, if their banking connections are not the same, that their banks be connected with the same giro institution or clearing house. The check at present certainly possesses natural advantages, as, for example, in the case of the local monetary intercourse in medium-sized cities and smaller places, where the total volume of transactions is too small to warrant the establishment of a giro office. This is especially true of international payments, as a central giro office for the purposes of international monetary intercourse can not so readily be created and expanded to meet increasing needs as one designed to serve merely a single country. Nevertheless, we have already the beginnings—even if feeble ones—of an international giro system.

The Austrian postal savings bank system, for example, is connected with the Swiss, German, and Italian systems,

the connection with that of the German Empire being through the Deutsche Bank.

The check, the older and earlier developed method of payment, has, consonantly with the natural and historical course of events, become thoroughly installed in England, a country which attained to a high stage of economic development at an early period, and has been transplanted thence to America.

In Germany, where down to 1876 the most intricate state of things prevailed with respect to the monetary standard and the coinage, and where the business of banking was not systematically developed until a comparatively recent period, the conditions were lacking for the general introduction of the method of payment by check. Just at the right historical moment the Reichsbank proceeded to fill this gap in the system of monetary intercourse in Germany by the installation of its giro business, and in this way it early deprived the check of a field in which it might otherwise have asserted itself. In 1907, under the pressure of a most burdensome financial stringency, a very active propaganda was instituted in the Empire in behalf of the popularization of the use of checks. It seems to us, however, that in the heat of the discussion an exaggerated importance was at times attached to the check and our system of monetary intercourse made to appear more defective than it is in reality. In any case we have a right to be proud of the figures representing the giro business of the Reichsbank. In judging of the conditions of monetary intercourse in Germany, we have an important factor to deal with in the circumstance that the

recent and rapid economic development of the country, which did not merely keep pace with the creation of capital but outstripped it, gave rise to an extensive system of monetary traffic by means of bills of exchange, and, in creating this mechanism of credit, put into circulation an instrument of payment that competes with the check and the giro transfer.

The operation of a bill of exchange is in general somewhat as follows: The merchant gives the dealer who has sold him goods a bill of exchange, payable in three or in six months, instead of paying cash for the goods. The latter takes his customer's bill and makes use of it, in his turn, in making payments to those to whom he is indebted for merchandise, and so on until some recipient finally hands over the bill to a banking concern with which he has connections. The bill of exchange, therefore, before it gets to the bank usually performs a series of monetary transfers, for the small dealer naturally prefers to pass on the bill, if possible, in making a payment, instead of handing it over to his bank, which would either deduct a certain percentage in the way of discount or else accept the bill at its face value, crediting the customer with the amount on the date of maturity, while business men (other than bankers) are in the habit of taking bills of exchange as they would cash. In recent years the numerous trusts and combines in Germany have begun to manifest a hostility to the use of bills of exchange. These unions, in specifying the conditions with respect to the mode of payment that are to obtain in the transactions between them and their customers,

often prescribe that bills of exchange are not to be accepted in payment.

The development of the use of bills of exchange in Germany may be traced by a glance at the following table:

STATISTICS OF BILLS OF EXCHANGE IN GERMANY.

Year.	Total amount of bills put in circulation in Germany (million marks).	Population of the German Empire (millions).	Average amount of bills put in circulation per capita (marks).
1872	12,865	41.23	312
1880	11,558	45.10	256
1890	14,020	49.24	285
1895	15,241	52.00	293
1900	23,304	55.82	417
1905	25,507	60.31	423
1906	28,062	61.18	459
1907	30,765	62.10	495

Special prominence will be given, of course, in what follows to the German giro system. It is not possible, on the other hand, to present a numerical exhibit of the monetary intercourse by means of checks, inasmuch as this is carried on through joint-stock banks and bankers, who do not publish any reports regarding the volume of check transactions.

2.

The Giro System in Germany.

[A mechanism of payments by means of transfers from one account current to another.]

(*a*) THE GIRO BUSINESS OF THE REICHSBANK.

The chief agent in the conduct of the giro business is the Reichsbank. The first and most essential requisite for the organization and development of such a comprehensive transfer system of payments as that of the Reichsbank was a system of branch offices embracing as many places throughout Germany as possible. At its foundation, in 1876, the Reichsbank assumed control of 182 branches of the Preussische Bank. At the present time the number of its branches exceeds by nearly 500 that of any other central bank in the world.

The giro business of the Preussische Bank amounted to next to nothing and was confined in the main to Berlin. Beyond this there was only the insignificant giro institution at Danzig. The Reichsbank, soon after its creation, proceeded to transform its independent branches into giro institutions and organized a system of transfers between them, by which payments could be effected without any charge to the customer. The number of Reichsbank estab-

lishments at which the giro business has been introduced has been at various dates as follows:

Year.	Out of total of—	Establishments with giro connections.
[a] 1876	206 branches	62
1886	228 "	122
1896	281 "	250
1907	479 "	456

[a] The statistics relating to the Reichsbank are taken from the regular reports of the bank, the jubilee memorial, and the statistical tables submitted to the Bank Inquiry Commission in 1908.

The system of long-distance (as opposed to local) giro transfers was the new feature in monetary intercourse that the Reichsbank brought into being, something for which no model hitherto existed. It has itself served as a pattern for the creations of foreign countries, in particular, Austria, which has closely imitated the giro arrangements of the Reichsbank.

In making a comparison with England, what is especially to be noted is that there it is the provincial banks that have organized about themselves an extensive system of branches, while the Bank of England possesses only 9 branches, so that a giro business carried on by the central bank of issue could not be developed there. In this country, on the contrary, the Reichsbank soon far outstripped all the other banks in the number of its branches. It was consequently enabled to rise to the position of a sort of liquidating establishment for the German Empire, which undertook to effect settlements for its customers by means of the system of transfers to and deductions from accounts current—the giro system.

The network of the Reichsbank system is organized as follows: The territory of the Empire is divided into so-called bank districts, which differ greatly in area. In each bank district there is a main branch establishment of the Reichsbank (*Stelle or Hauptstelle*), with which are connected many subbranches (*Nebenstellen*). The number of these subbranches varies greatly, some districts having many more than others. In Berlin is the central office for all the Reichsbank establishments, which is under the management of the Reichsbank Direktorium. The subbranches are not autonomous establishments, being entirely dependent in the conduct of their business on the main branches to which they are subordinated. The entire bookkeeping of a subbranch is done over again in the establishment of which it is a dependency. The subbranch is bound to send in all the vouchers in their original form to the main branch. As a means of supervising still further those subbranches which are in charge of a single official only, they are required to send in the books of their customers every six months to the establishment under whose control they are placed. Here all the entries are gone over and verified and the books are then returned.

The giro business is in no manner restricted at the main district banks, but in this respect the subbranches are divided into two classes, those with unrestricted giro business and those with restricted giro business. The former includes all subbranches that require at least two officials to run them. The giro business is restricted in the case of those subbranches which require only a single employee to attend to their general business and the

volume of whose giro transactions would not warrant the employment of an additional official. The restriction imposed upon the subbranch of the latter class is as follows:

If the sum which the customer desires to have placed to the account of a person at another branch (ordinary transfer by means of the so-called "red check") is between 1,000 and 50,000 marks, the transfer is made direct to the place of destination without the intermediary of the main branch on which the subbranch is dependent, but if the payment is one of a sum in excess of 50,000 marks, such direct transfer will be made only in case the transaction is offset by business in the way of discounts or loans on which the Reichsbank can realize a profit amounting to ten days' interest on the sum transferred. If the sum to be paid is less than 1,000 marks, the customer can have the transfer made direct to the place of destination only on payment of a fee of 30 pfennigs for each transaction. This restriction entails upon the public the loss of one day's interest in every case where a transfer is made through the intermediary of a main district branch. As far as the Reichsbank itself is concerned the conduct of its business at the subbranch is simplified and rendered more economical inasmuch as the superior establishment, which in this way concentrates within itself the small transfers of the dependent establishments and effects them in conjunction with its own long-distance transfers, is enabled to execute the bulk of the transfers in its district at the places of destination in a lump. In the case, therefore, of the chief

commercial centers a number of giro transfers may in this way be effected by means of a single letter of advice. From Karlsruhe to Mannheim, for example, there are on ordinary days usually between 40 and 50 transfers, which can thus be dispatched collectively.

We may as well state that formerly this giro business of the subbranches was subjected to much greater restrictions than it is at present, especially at the time when many of these branches were still run by agents. It is not many years since only sums in excess of 3,000 marks were transferred directly, while all transfers of sums below 3,000 marks had to be effected through the intermediary of the superior establishment. Through successive repeals of restrictive regulations, into the details regarding which we need not enter here, the giro business has been extended in particular with respect to the smaller places. The existing restrictive provisions, therefore, which we have just described represent a series of changes in the direction of a more expansive policy.

In order to facilitate its giro business and reduce the friction to a minimum, the Reichsbank has special printed forms prepared for the various kinds of transactions, the use of which is made compulsory on the public. For a simple transfer of money from one customer to another, whether they be in the same town or in different places, the "red check" is employed, which is filled out by the party making the transfer and handed in to the bank. It is not a check in the proper sense of the term, but is so called because the printed

forms resemble checks and are put up in books in the same way as checks. The word "check" does not occur in the printed matter of the blank; neither is the instrument transferable. When a number of payments are made simultaneously the party making the transfers is furnished with a blanket form on which the names of the individual firms and the various sums are entered and which has to be accompanied by a red check covering the aggregate amount. For the so-called "great banks" of Berlin, some of which have a volume of transfer transactions between them (these belonging, therefore, to the class of local transfers) amounting to as much as one hundred transfers for each bank per diem, there are blanket forms which are of a different color for each bank. When cash is wanted the so-called "white check" is employed. This is a legally constituted check. There are special printed forms for the use of those who have no account with the Reichsbank.

Every depositor at the Reichsbank receives a passbook, in which all amounts paid in and paid out (not only giro transfers) are entered and which, in regard to giro transfers in particular, does away with the necessity of any further receipt, confirmation, or notification and renders any correspondence or statement of account current superfluous.

In order to accustom the public to a close observance of the regulations and injunctions that obtain in the giro business, without which the rapid and safe operation of such a comprehensive system of monetary intercourse is not conceivable, the Reichsbank has instituted some special

fees for certain services, the requisition of which on the part of the customer is calculated to interfere with the smooth running of the bank's machinery. As the regular hours of the giro service are only till 4 p. m., a charge of 50 pfennigs is made for each transfer between 4 and 4.30 p. m. and of 1 mark for each transfer after 4.30 p. m. For the revocation of a red check there is a fee of 1 mark. If a transfer is to be made immediately, there is a charge of 1 mark plus the postage.

The Reichsbank does not, as a rule, charge its customers anything for transfers of money effected during the regular business hours. But that it must have a remuneration for its trouble is a matter of course. This compensation is provided in that the firm or person having an account with the bank must maintain a minimum cash balance, on which no interest is paid, the aggregate of the balances enabling the Reichsbank to do a sufficient volume of business yielding a profit, especially in the way of discounts and loans. The question of the amount of the minimum balance is usually settled before the opening of the account. In the case of most accounts the sum is 1,000 marks. This is the minimum amount in the way of a balance that is regularly demanded in the case of business accounts. Occasionally persons not engaged in business who deposit their money in the Reichsbank with the intention of letting it remain there are allowed to go below this minimum of 1,000 marks. In the case of business accounts, however, the minimum is strictly adhered to. An addition may be made by the Reichsbank to this indispensable sum in case the volume of transac-

tions effected for the customer is too large relatively to the profit which the Reichsbank derives from the account. Down to 1906 the Reichsbank was rather free and easy in the matter of adding to the minimum sum. In case there was not enough profit the managers had means which it is not necessary to discuss here of straightening out matters with their customers in the way that suited the Bank. The ways and means were left to the discretion of the individual officials. In the year 1906, however, a uniform gauge was prescribed by the Reichsbank Direktorium at Berlin for the determining of the minimum balance to be demanded. The officials at the main district branches were allowed only this much latitude that in the determination of the volume of transactions in the case of any individual account they might, in making up the figures, select any period of not less than three months down to the close of 1907. The gauge employed in calculating the minimum balance was, indeed, kept secret, but information regarding it appeared in the Frankfurter Zeitung of November 26, 1906, which we may take to be reliable. According to this statement the reckoning of the Reichsbank is based entirely on the volume of transactions in long-distance—that is to say, not local—transfers, the sums transferred to the account of the customer being reckoned as well as the sums transferred by him to others. From the annual total of such transactions one thousand times the amount realized by the Reichsbank in the course of a year from discount and loan transactions in connection with the account of the customer is deducted. The quotient obtained by dividing

the remainder by the number of days in the year (300) will be the minimum balance which the depositor in the Reichsbank will be required to maintain.

By the application of this gauge it was found that in the case of the great majority of accounts the proper relation was not maintained and that it was therefore necessary to establish the desired ratio. In the year 1907 the amount of the minimum balance was consequently raised in a great many cases, which action subjected the Reichsbank management to much criticism and to attacks on the part of the business world. We shall give a few data to show at what a high figure these minimum balances may be fixed. The permanent balances (as dictated by the Reichsbank) of the "great banks" in Berlin run up into the millions, and yet the provincial branches of these banks are obliged to keep minimum balances in proportion to the extent to which they have giro transactions with the Reichsbank. In the case of Hamburg, where the giro business is on the most extensive scale, the minimum balances of the five giro banks fluctuate between 5,000,000 and 10,000,000 marks. By exacting too much from its customers—and by some persons the raises of 1906–7 were considered excessive—the Reichsbank would expose itself to the danger of losing part of its giro business. It has frequently been asserted that in its network of branch offices the Reichsbank possesses a monopoly of the monetary intercourse in the German Empire. This view may in a measure have been justified previous to the development of the colossal institutions which in German banking

parlance are known as the "great banks." But now that the great banks can avail themselves of an extensive network of branches, affiliated banks, and other establishments with which they have close relations, besides the connections of these affiliated institutions, these giant concerns, which stretch their arms over the whole of Germany, are in a position to serve as giro institutions for a large body of customers, and, by offering inducements in the matter of rates and in other ways, to take away customers and business from the Reichsbank, so that they threaten ultimately to deprive it of the controlling position which it enjoys with respect to the monetary intercourse of the country.

The growth of the giro business of the Reichsbank is shown in the following table:

	Million marks.
1876	16,711
1877	27,022
1880	35,234
1885	53,847
1890	79,749
1895	93,698
1900	163,632
1905	222,136
1906	245,622
1907	260,656

This exhibits a constant increase up to the colossal sum of 260,000,000,000 marks in 1907. The showing, it must be said, however, is larger on its face than the reality. In order to make these figures more intelligible, it is necessary to observe that they represent not merely the giro transfers pure and simple—that is to say, payments by

means of transfers on the books. Every transaction which a giro customer has with the bank, as, for example, in the way of discounts or loans, is entered on the books in the giro manner, even though payment be made to him or by him immediately. Owing to this inclusion of the transactions belonging to the Reichsbank's personal business, which have nothing whatever to do with the giro transfers, the total volume of the giro business is made to appear much larger than it is. We must, therefore, extract from the total that part which represents the volume of giro transfers effected by the Reichsbank on account of third parties. This transfer business, pure and simple, consists in the local transfers—that is to say, transfers on the books between two depositors residing in one and the same bank district (not necessarily in the same place), and long-distance transfers—that is to say, giro transfers between two customers doing business in different bank districts. In looking at the figures, we have to bear in mind that each transfer of a sum from one account to another is entered twice, the charging and crediting figuring as separate transactions. In the case, however, of such long-distance transfers in which the payment is made by a person not having an account to a depositor there is but a single entry, that placing the amount to the credit of the depositor at the receiving institution.

It is interesting to note that the total giro business is about equally distributed between local and long-distance transfers.

LOCAL AND LONG-DISTANCE GIRO BUSINESS OF THE REICHSBANK.

Year.	Local transfers.[a]			Long-distance transfers.[b]		
	Transactions.	Amount (million marks).	Percentage of total business.	Transactions.	Amount (million marks).	Percentage of total business.
1876	----------	6,159	36.9	----------	3,948	23.6
1880	931,952	10,907	31.0	1,010,680	11,215	31.8
1885	886,224	20,002	37.1	1,742,816	14,519	27.0
1890	1,280,703	30,067	37.7	2,968,368	20,953	26.2
1895	1,690,114	25,195	26.9	4,624,048	26,722	28.5
1900	3,991,912	48,319	29.5	7,446,611	50,186	30.7
1905	5,073,678	72,054	32.4	10,584,229	67,714	30.5
1906	5,499,335	80,398	32.7	11,690,768	72,745	29.6
1907	6,064,299	87,197	33.4	12,544,670	74,930	28.8

[a] These figures include transfers between depositors in one and the same place and transfers between depositors doing business in one and the same bank district. Down to 1890 clearing transactions are also in part included.

[b] These figures represent transfers between depositors not located in one and the same bank district (transfers by red check). They include also payments made by persons not having an account with the Reichsbank to depositors in another district, the respective amounts in such cases being entered but once, instead of figuring twice.

It will be seen that the number of long-distance transfers is about double that of the locals. This is as it should be, as it is mainly in the matter of long-distance transfers that the giro system has the advantage over the method of payment by check. In the matter of local transfers, on the other hand—not reckoning the vast giro business of Hamburg—giro and check are probably about on a level with respect to the number of transactions.

The fact that the long-distance transfers constitute the major part of the giro business of the Reichsbank (reckoning the *number* of transactions) is due mainly to the way in which the institution is organized, with its network of branches. It is natural, too, that payments without the use of cash should be made in larger measure in connection with places remote from one another than in local monetary

intercourse, where personal contact is apt to lead to cash payments, and where other methods of payment, especially the check, as we have seen, compete with the system of giro transfers. Anyone who is familiar with German ways in the matter of payments will have to admit that in this country, both as regards local and long-distance payments, the people and the public authorities are still very far from living up to the economic principle of the avoidance of the use of cash in monetary transfers.

If we wish to get a precise idea of the extent to which the giro business enables us to dispense with the use of cash, we must halve the absolute figures of the total of the transfer transactions. The accuracy of the mode of entry employed is borne out by the following table of long-distance transfers, which presents the amounts transferred merely with reference to the office *from* which the transfers were made, no account being taken of the credit entries (credits to depositors) in the offices *to* which the transfers were made:

VOLUME OF LONG-DISTANCE TRANSFERS.

Year.	Transfers between depositors in different places.			Paid in by officials and persons having no account with the Reichsbank for account of depositors.			Total (million marks).
	Transactions.	Amount (million marks).	Average (marks).	Transactions.	Amount (million marks).	Average (marks).	
1876	----------	1,921	--------	---------	134	--------	2,055
1880	366,697	5,098	13,903	267,702	1,169	4,366	6,267
1885	681,727	6,809	9,988	380,442	1,104	2,903	7,914
1890	1,211,050	9,909	8,182	550,709	1,882	3,418	11,791
1895	1,975,748	12,672	6,414	651,725	2,577	3,954	15,249
1900	3,261,716	24,320	7,456	699,117	1,546	2,211	25,866
1905	4,850,146	33,009	6,806	752,813	1,722	2,287	34,731
1906	5,389,346	35,469	6,581	764,374	1,795	2,349	37,264
1907	5,796,537	36,606	6,315	782,343	1,725	2,205	38,331

If now we refer again to our first table and compare the total of the cash transactions, as given below, with the total of all transactions, we shall arrive at some very interesting figures, which exhibit the way in which cash payments have been displaced by the method of payments by means of transfers not involving the use of cash.

TOTAL VOLUME OF CASH PAYMENTS.

Year.	Transactions.	Amount (million marks).	Percentage of total transactions.
1876	----------	6,603	39.5
1880	784,900	13,111	37.2
1885	1,366,580	19,325	35.9
1890	2,058,299	22,191	27.9
1895	1,599,821	17,023	18.2
1900	2,062,875	27,444	16.8
1905	2,260,410	34,367	15.5
1906	2,450,049	37,533	15.3
1907	2,609,777	40,054	15.4

The above figures would, however, be misleading without some remarks by way of commentary. The percentage of cash payments has not been reduced, as would appear from the table, from 39.5 to 15.4—that is to say, by 24 per cent. The actual diminution was in reality much less. This discrepancy is due to the changes introduced by the Reichsbank in its bookkeeping in the course of years. Since 1893 only strictly cash transactions and bills collected for account of depositors have been entered as cash transactions. Before that time the rule was to include under this head, for example, paid-up loans and "white checks" which were neither cashed nor used in local transfers. Prior

to 1885, moreover, the sums credited in connection with discounts, as well as the amounts of domiciled bills paid by the bank for its depositors, were included.

It is very interesting to observe in what an increasing measure the public has been utilizing its balances at the Reichsbank, as is clearly evinced by the following figures:

Year.	Average amount of balance (marks).	Average aggregate of transactions per account (marks).
1876	21,148	5,149,844
1880	27,114	6,510,395
1885	28,469	8,050,100
1890	27,401	8,788,792
1895	29,772	8,149,093
1900	23,690	9,596,020
1905	22,067	9,781,051
1906	20,761	10,251,642
1907	20,707	10,693,695

In 1876 the average amount of transactions per mark of balance was 237 marks; in 1895, 274 marks; in 1900, 405 marks; in 1905, 443 marks; in 1906, 494 marks; in 1907, 516 marks.

In 1876 the sums paid in by depositors remained in the bank on an average 3.03 days; in 1895, 2.23; in 1900, 1.33; in 1905, 1.19; in 1906, 1.03; in 1907, 0.99 (less than one-third of the average time in 1876).

The foregoing figures show plainly that the proportion of cash transactions in the operations of the Reichsbank is diminishing from year to year. It would, of course, be impossible to express numerically just how large a saving in cash is effected in the annually increasing circulation of monetary capital, but this much may be

predicated, that if this capital had to be in the form of metallic currency, such an enormous amount of coin would be required that the monetary intercourse which we have to-day in this country could not be conceived of.

As a result of the more intensive utilization of the deposits, the deviations upward and downward from the average balance become relatively greater. We find, for example, that this deviation, taking all the accounts together (excluding, however, government accounts, imperial and state) increased—not at a uniform rate—in the period 1900–1907 from 31 per cent to 49 per cent. These fluctuations, just as those in the bank-note circulation, make it necessary for the Reichsbank to keep a larger supply of cash.

The relative extent to which the various classes of the community participate in the giro business of the Reichsbank is shown in the following table, the statement being for March 31, 1908:

Depositors according to classes (government authorities excluded).	Accounts.		Deposits.		Average balance (marks).
	Number.	Per cent.	Amount (marks).	Per cent.	
Agriculture and allied industries	369	1.9	2,143,659	0.8	5,809
Manufactures, mining, etc	7,763	40.0	70,106,272	27.0	9,031
Trade, transportation, and insurance	6,366	32.8	35,952,439	13.8	5,648
Financial (banks, bankers, brokers, etc.):					
Joint-stock banks	936	4.8	93,838,276	36.1	90,578
Others	2,311	11.9	40,496,856	15.5	17,524
Corporations, endowed institutions, private individuals, etc	1,138	5.9	15,634,507	6.0	13,739
Others	533	2.7	2,136,250	.8	4,008
	19,416	100.0	260,308,259	100.0	13,338

Leaving the public offices out of account, the banks and bankers, of course, come first with respect to the extent of business, their deposits constituting 51.6 per cent, or more than one-half, of the total deposits (their accounts being only 16.7 per cent of the total number), while manufactures, mining, etc. (with 40 per cent of the accounts), have 27 per cent and trade, transportation, and insurance (with 32.8 per cent of the accounts) 13.8 per cent.

A comparison of these groups with respect to the amount of business could not yield any significant results, inasmuch as the banks have naturally to effect the payments for industry and trade and in a great measure for persons engaged in other fields of human activity.

The giro arrangements of the Reichsbank are at the service not merely of depositors. Persons and institutions having no account at the bank can have money transferred by the giro system to depositors, and payments may in like manner be made to nondepositors by those having an account at the bank. In the years 1876–1884, indeed, nondepositors were allowed to make payments by giro to depositors without charge. This proved to be an abuse, however, as many persons availed themselves of the privilege and instead of opening an account at the bank, exploited its giro arrangements at the expense of the depositors, who were required to maintain a minimum balance. In order to induce those who might in a general way be presumed to be interested in having a share in the giro to join the ranks of the depositors, the Reichsbank in 1884 instituted a charge in the case of those not having

an account, and this charge was afterward repeatedly increased.

The regulations at present in force in regard to payments effected for nondepositors are as follows:

	Marks.
(*a*) Cash at the office; for each transfer up to 3,000 marks	0.50
For each additional 1,000 marks or fraction thereof	.10
(*b*) Remittance by mail (irrespective of whether the sum is intended for a local depositor or for one living in another bank district)	One-fiftieth of 1 per cent.
Minimum for each sum transferred	.50
(*c*) Cash transactions admitting of a profit of at least ten days' interest	No charge.
(*d*) Sums paid in to the "department of securities" for the purchase of securities or as interest on mortgages for account of party making the payment	No charge.
Extra fee for each payment:	
Between 12.30 and 1 p. m., or in the afternoon hours until 4 p. m.	.50
After 4 p. m.	1.00
Sight transactions admitting of a profit of at least ten days' interest	No charge.

The following table shows the extent of the giro business in connection with persons having no account at the Reichsbank:

PAYMENTS BY GOVERNMENT OFFICIALS AND OTHER PERSONS HAVING NO ACCOUNT AT THE REICHSBANK FOR ACCOUNT OF DEPOSITORS.

Year.	Transactions.	Total amount (million marks).	Average amount (marks).
1876		134	
1880	267,702	1,169	4,366
1890	550,709	1,882	3,418
1895	651,725	2,577	3,954
1897	733,805	3,047	4,152
1900	699,117	1,546	2,211
1905	752,813	1,722	2,287
1906	764,374	1,795	2,349
1907	782,343	1,725	2,205

The decrease since 1897 is likely due to the circumstance that the public treasuries, which had previously been availing themselves of the services of the Reichsbank without having an account there, proceeded at that time in large numbers to open an account and were soon nearly all included in the giro network of the Reichsbank. This branch of the bank's business, with respect to the total volume of transactions, is, of course, insignificant by the side of the regular giro business. It may even so, however, be regarded as a valuable adjunct to it.

One or two other cash-saving adjuncts to the giro system, arrangements that are of considerable benefit to the customers of the Reichsbank, may be briefly adverted to here. They will serve to show how the giro system may be brought in correlation with other parts of the mechanism of exchange in this country.

The postal-order system offers a mode of payment which is very popular with us Germans. The post-office sells franked postal-order slips, which the person making the remittance fills out and hands in with the money. At the place of destination the letter carrier hands to the payee the sum entered on the slip. Every post-office is a postal-order office. In order to avoid as far as possible the use of cash in such transactions, the imperial post has entered into an arrangement with the Reichsbank by which the amount of the remittance is placed to the account of the payee—that is to say, if he is a depositor in the Reichsbank—instead of being paid in cash. The depositor merely gets the counterfoil, which is to serve as a voucher for the sum placed to his credit at the bank. In like

manner a depositor at the Reichsbank who has had a bill of exchange or other draft collected for him by the post-office or a parcel delivered by mail "collect on delivery" can have the sum placed to his account. As the transmission of money through the post-office in these three ways is on a pretty large scale in Germany, the aggregate of payments thus effected without the use of cash is a very respectable amount.

It is unfortunate that this kind of clearing business has to be confined to the customers of the Reichsbank, only about 24,000 in number, and that in the case of the great bulk of the postal orders, etc., the payment must still be effected by means of cash. But little use is made as yet of the following arrangement, which ought to make it possible to dispense still further with the use of cash in the operation of the postal-order system. Persons or firms having no account with the Reichsbank are in reality enabled to participate in the operation of effecting postal-order payments through the channel of giro transfers by having the amount of the postal order placed to the credit of some person or firm having an account with the bank. The crediting is done so speedily that the money is available on the very same day. By means of this combination a single giro account may be made to serve a number of individuals in the matter of postal payments. The giro account of banks, with their immense clientèle, is particularly adapted for a transfer center for payments of the kind in question. As the post-offices have a giro account with the Reichsbank, they are not obliged to transfer the amount of the postal orders to the bank which acts as a

transfer center in cash, but instead hand the bank a local transfer check for the aggregate amount payable at the time, which amount is charged to their account. As they hand in such checks each day, they are obliged every little while to strengthen their account. This is done either through a cash payment or through a transfer from the general post-office or else by means of a so-called "yellow check" drawn on the imperial treasury.

The Reichsbank has another way of promoting monetary settlements without the use of cash by making it a condition that all bills drawn upon its depositors shall be made payable (domiciled) at the bank. While in England bills of exchange are, as a regular thing, payable at a bank, in this country when a bill matures payment is to a great extent made in cash. The employees of our banks are consequently kept busy collecting large quantities of bills (large as to number and aggregate amount). The many small bills occasion much labor, trouble, and loss of time. The Reichsbank has been influenced in part by other considerations—especially by the desire to keep an eye on the engagements of its customers in the matter of bills—in imposing the domiciliary regulation upon its depositors; but at all events this regulation has the effect of promoting monetary settlements without the use of cash. An exception with respect to this obligation is made in the case of those cities which have a clearing house. In such places bills may be made payable at banking houses having daily clearings with the Reichsbank.

Bills drawn upon firms or individuals not having an account at the Reichsbank may likewise be made payable

at one of the offices of the bank for account of a depositor, the words "Payable at the Reichsbank, amount to be charged to the account current of X," being written across the face of the instrument. In this way the giro accounts, particularly those of banks, are made to do service for third parties, persons having no connections with the Reichsbank.

(*b*) THE REICHSBANK AND THE PUBLIC TREASURIES.[a]

In a comparison of the transactions between the Reichsbank and the public treasuries with the corresponding monetary intercourse in other countries the essential distinguishing factor has to be borne in mind that the character and scope of the functions of the central bank of issue are very different in different countries and that consequently the relations between the public treasuries and the central bank will be closer or looser and, above all, that the modes and means of payment employed by the public authorities will be much more advanced in one country than in another.

In England and Belgium, for example, the connection is the closest, inasmuch as the central bank of issue in these countries is the actual disbursing and receiving office for government funds, which makes it unnecessary for the administrative officers to keep on hand a supply of public money. The national bank of issue is there a common reservoir in which all public funds are ultimately collected. In Germany, on the other hand, the administrative apparatus is provided with numerous treasuries, which, be they

[a] Compare C. Kimmich, "*Die finanziellen Leistungen der Notenbanken für den Staat*," 1909. Verlag T. Guttentag, Berlin.

governmental or municipal, are obliged to keep a greater or smaller stock of cash, whereas in England everything has to be done by means of bank accounts, a settlement being ultimately made with the Bank of England without the necessity of a resort to cash payments. In Germany the functions of the Reichsbank are confined in the main to the giro business. The public treasuries avail themselves almost exclusively of these giro services for the purposes of their mutual monetary transactions.

The Reichsbank is not called upon to make payments releasing the Imperial Government from its legal obligations. With us the imperial treasuries are the agencies charged with such payments, and the Reichsbank serves only as a vehicle for the purpose of transferring funds from one office to another. Owing to the existence of these imperial treasuries as actual pay offices, the whole mechanism of payments in connection with public needs has unfortunately not undergone a development in this country conformable to modern banking principles such as we have seen in other countries, for the officials who handle our public funds are averse to modern banking methods in the matter of payments. There is also a good deal of red tape working in the same direction.

And last, but not least, the habits of our people, who have no particular sense for the whole matter of monetary settlements without the use of cash and who in a great measure have no bank account, are still rather backward in this respect. Payments by individuals are generally made in cash, and our officials, as we have seen, have not been the pioneers for the public in the introduction of modern means of payment, as the giro and the check. And

so the services rendered by the Reichsbank to the imperial and state governments are only in the way of placing its giro machinery at their disposal in just the same manner as it serves private individuals. A few deviations and peculiarities in their mutual intercourse may be pointed out here.

The central treasury of the Empire, the Reichshauptkasse, at Berlin,[a] transacts the business growing out of the receipts in behalf of the Government and the disbursements at the other treasuries. It is linked with the Reichsbank, or rather it has been brought into existence by the Reichsbank in order to perform certain functions provided for in the bank laws and statutes. The statutes relating to the Reichsbank impose upon it the obligation of taking charge of the funds that the Imperial Government has on hand without compensation and to keep account of the moneys paid into it or disbursed by it for the account of the Imperial Government. The imperial treasury is therefore merely an accounting treasury office and as such neither makes nor receives cash payments. The cash of the Imperial Government is deposited in the treasury of the Reichsbank, with which institution the imperial treasury has the same relations as a depositor (giro client). The imperial funds are administered by the Reichsbank—that is to say, to the extent that these funds are concentrated in Berlin. Outside of Berlin the imperial funds are distributed among the main treasuries in Prussia and the treasuries of the individual states. From time to time these treasuries send their superfluous money to the main office

[a] Compare Kimmich, *Bedeutung und Organisation der Reichshauptkasse. Bank Archiv*, 1909.

of the Reichsbank for account of the central imperial treasury, transferring the funds through private banks or through the Reichsbank.

The individual states of the German Empire possess no such institution as that of the Imperial Government which we have just described. All they have is a giro connection with the Reichsbank. The extent to which the state treasuries avail themselves of the arrangements of the Reichsbank depends upon the particular form which the treasury system and the system of monetary intercourse in them has assumed and varies greatly in the different states. Bavaria, for instance, is still rather backward in the matter of monetary intercourse, although the system of transfers between the individual treasuries (into which the agency of the Reichsbank enters) has made considerable progress in recent years. In Prussia the monetary intercourse between the government offices in nearly all departments of the administration is now regularly carried on (as far as there is a branch of the Reichsbank established at the place where the office is located) exclusively by means of the Reichsbank.

The public treasuries enjoy certain favors at the hands of the Reichsbank as compared with private customers. Thus the main offices and subbranches of the Reichsbank are obliged to transact payments made by anyone into the imperial treasury free of charge; that is to say, they have to render this service in the case of persons not having an account with the bank, who otherwise are made to pay a fee. Such payments, as a matter of fact, are very infrequent, as the Imperial Government derives its main

revenues from the quotas of the states, customs, and indirect taxes.

The public giro clients of the Reichsbank, moreover, are not obliged to maintain a minimum balance. Whenever they are in need of funds they are allowed to draw checks on the central treasury of the imperial treasury system ("yellow checks" for the post-offices, "blue checks" for the railway offices, "green checks" for the treasuries having direct connection with the imperial treasury [a]) and to present them at the local branch of the Reichsbank, whereupon the amount drawn for is at once placed at their disposal. In this manner many of the provincial treasuries obtain their giro balances, and likewise, indirectly, their cash in hand. The central treasuries alone are obliged to maintain a minimum balance. The central treasury of the Empire and that of the Prussian Kingdom, as well as the general post-office, have to keep a minimum balance of 10,000,000 marks. The aggregate of the minimum balances arranged at present for all the public treasuries is 35,800,000 marks, while the total for private accounts is 113,800,000 marks. From 1896 on the offices which receive and disburse public funds joined the ranks of the giro depositors of the Reichsbank in increasing numbers, and this movement reached such proportions that by the end of March, 1908, 4,659 governmental and municipal offices were enrolled. The accessions continue at an undiminished rate. From May 20 to the end of

[a] These are the thirty-six main public treasuries (the Prussian intermediate treasuries) and the main treasuries of the Federated States, into which are paid the imperial customs and taxes, and which make disbursements for account of the Empire.

November, 1908, for example, out of 900 newly opened accounts about 250 were public accounts. We have reached the stage now where most of the public treasuries have accounts with the Reichsbank. The question is whether the giro system of the Reichsbank could not be utilized on a very much larger scale by the public authorities. At all events, the ground has been prepared for such extended exploitation, and it is now for the authorities to avail themselves of the exceptionally liberal terms accorded them by the Reichsbank in the matter of giro transfers, and that not merely in the way in which they have hitherto done in their mutual transactions, but for the purposes of monetary intercourse with third parties.

Through the accession of so many public offices to the giro system of the Reichsbank and the privilege of making out various kinds of checks for the purpose of strengthening the available resources a great saving in metallic currency has been effected; for, while formerly the public treasuries had to be prepared to meet all demands that might be made upon them and a large amount of metallic cash was consequently locked up in their coffers, it is now only the central treasuries that are obliged to keep the necessary stock of cash. The cash of the provincial treasuries can be sent to the Reichsbank, and in this way may be made to contribute to the extension of the system of monetary settlements without the use of cash.

Unfortunately we have no statistics regarding the volume of giro transactions, pure and simple, between the Reichsbank and the imperial and state treasuries, as the Reichsbank publishes merely the figures of the total

business done with it. These figures include, of course, cash payments also, so that we are unable to tell whether the ratio of cash payments to giro transactions has diminished. The total volume of business done by the Imperial Government and the state governments with the Reichsbank has increased at a very rapid rate, as is shown by the following table:

PAYMENTS (RECEIPTS AND DISBURSEMENTS) FOR ACCOUNT OF THE EMPIRE AND THE FEDERATED STATES.

	Marks.
1876	2,071,000,000
1880	1,372,000,000
1885	2,807,000,000
1890	4,055,000,000
1895	4,233,000,000
1896	11,558,000,000
1897	15,155,000,000
1900	28,479,000,000
1905	43,578,000,000
1906	51,205,000,000
1907	53,489,000,000
1908	59,778,000,000

The utilization of the balances at the Reichsbank on the part of the imperial and state treasuries, although it is still considerably less intensive than in the case of other accounts, has been increasing at a more rapid rate. In 1900 the figures representing the total business transacted per mark of average balance were 159.50 marks for the public treasuries and 404.40 marks for other accounts. In 1903 the respective figures were 177.40 and 413.10; in 1905, 240 and 442.30; in 1896, 284 and 491.70; in 1907, 302.50 and 514.70.[a] The disadvantage on the side of the public treasuries is diminishing rapidly from year to year,

[a] Kimmich, *l. c.*

owing in great measure to the numerous accessions of such treasuries in the last few years to the ranks of the giro clients of the Reichsbank. As the monetary intercourse between them is in the main of a mutual character, it is possible to transact a much larger volume of payments by means of giro transfers than formerly. The figures will therefore have to keep on growing as long as the public treasuries will continue at such a rate to open accounts at the Reichsbank.

The following table exhibits the annual deviations in the amount of total deposits in the case of the public treasuries as compared with other accounts:

DEVIATIONS IN THE TOTAL AMOUNT OF DEPOSITS FROM THE AVERAGE TOTAL IN PERCENTAGE OF THE LATTER.[a]

Year.	Imperial and state treasuries.	Other accounts.
1900	102	31
1901	105	39
1902	98	35
1903	123	41
1904	82	34
1905	113	52
1906	68	41
1907	120	49

[a] Kimmich, *l. c.*

In the fluctuations in the case of the public treasuries there is a certain uniformity in the undulatory movement. The deposits accumulate regularly at the quarterly periods and at the close of the periods great changes suddenly ensue, as the Government has at those times to effect its large payments (interest on loans, contracts, etc.). In the case of private accounts, on the other hand,

there is a great regularity in the movement, inasmuch as, owing to the great diversity in the character of the accounts, one set of depositors will be low in funds at the same time that another set will have a superabundance, so that a strong compensatory movement is established.

(c) GIRO BUSINESS OF THE PRIVATE BANKS OF ISSUE.

Banks of issue were formerly very numerous in Germany. In 1875 there were 38 of them. Gradually, however, nearly all of them renounced the privilege of issue, as the laws relating to banking made their existence as banks of issue more and more difficult. At the present time there are only 4 such banks [a] by the side of the Reichsbank, viz: the Bayerische Notenbank, the Württembergische Notenbank, the Sächsische Bank, and the Badische Bank. These banks of issue have never had any great importance as regards the giro business, and even at the present day the volume of their transactions is relatively insignificant. Their activity in this direction is restricted by the fact that it is confined within the bounds of the individual states in which they are located, and even of the necessarily limited monetary intercourse of the inhabitants only a fraction comes within the actual range of their business. To those persons and concerns whose business extends beyond the border these state banks of issue are unable to afford the facilities of the giro

[a] If there are those who are in favor of the continued existence of the private banks of issue, it is exclusively on the ground of considerations in regard to the matter of credit. With respect to the granting of credit these institutions, with their restricted territorial range, have special qualifications owing to their greater ability of knowing just how to manage, based upon their knowledge of local conditions.

transfer. What is imperatively required here is a Reichsbank giro, and the need has been adequately met by the Reichsbank. To prevent themselves from being ruined by the competition of the Reichsbank, the private banks of issue have been obliged to offer various inducements to their customers in the matter of the giro business. They make no demands in regard to a minimum balance, pay interest on deposits, do not oblige their customers to domicile bills drawn on them at the bank, and exact no charge from persons having no account with them who desire to have sums placed to the account of depositors (to some extent also making cash payments free to third parties who are nondepositors for account of depositors). The private banks of issue sustained a severe blow in 1900 on the occasion of the renewal of the bank laws through the provision prohibiting them from discounting bills at a lower rate than the Reichsbank whenever its rate reaches 4 per cent and not allowing them to go more than one-fourth of 1 per cent below the official rate and one-eighth of 1 per cent below whatever private rate the Reichsbank may have whenever the bank rate is below 4 per cent. These trammels imposed upon the principal business of the banks was bound to affect their giro business injuriously in spite of the efforts made to counteract the mischief by the establishment (especially in Württemberg) of many new branches and agencies. The following table exhibits the extent of the giro business of the German private banks of issue. The figures for the Reichsbank are inserted for the sake of comparison.

GIRO AND CHECK TRANSACTIONS OF THE GERMAN BANKS OF ISSUE.

[In millions of marks.]

	1901.	1905.	1908.
Reichsbank	167,729	222,136	269,946
Sächsische Bank	1,291	1,372	1,813
Bayerische Notenbank	787	894	882
Badische Bank	109	418	576
Württembergische Notenbank	156	261	725

These figures embrace, as may be seen from the following tables, not merely the giro business, but also the check transactions in these institutions.

Sächsische Bank.—This has, besides its main office, only eight branches, with which, in addition, a few neighboring localities are connected. The Reichsbank has also established offices at the places where these branches are located. In the extent of the giro and check business, which it introduced in 1888, it is foremost among the private banks of issue. The following are the figures for 1898 and 1908. The figures for the business transacted by the Reichsbank at the same places are also inserted.

Year.	Sächsische Bank (Marks).	Reichsbank (Marks).	Per cent of total.	
			Sächsische Bank.	Reichsbank.
1898	1,103,298,300	7,772,726,400	12.4	87.5
1908	1,813,397,000	12,259,874,300	12.8	87.1

Bayerische Notenbank.—In Bavaria, before the Reichsbank entered the field, the giro business could hardly be said to exist. It was not until the Bayerische Notenbank saw its business dwindling steadily and that of the Reichsbank increasing (the annual business of the former having

declined between 1876 and 1882 from 178,000,000 to 158,000,000 marks and that of the latter having increased from 457,000,000 to 1,161,000,000 marks) that it proceeded to introduce the giro system, which had hitherto been confined to the more important local concerns in Munich, at its branches and soon afterward at its agencies. It increased the number of its giro places from 48 in 1883 to 80 in 1908, while those of the Reichsbank in Bavaria increased in number from 11 in 1876 to 39 in 1908. There are 36 places at which both banks are represented. The following table gives the figures for a series of years:

Year.	Bayerische Notenbank. Marks.	Reichsbank.[a] Marks.	Per cent of total.	
			Bayerische Notenbank.	Reichs-bank.
1876	178,240,000	457,652,000	28.03	71.97
1886	401,904,000	1,911,102,000	17.3	82.7
1896	723,142,000	3,956,272,000	15.4	84.6
1907	913,791,000	10,999,249,800	7.7	92.3

[a] These figures are not exactly those for the total giro business of the Reichsbank in the Bavarian places, as the giro transactions of a number of subbranches are included in the business of non-Bavarian main branches to which they are subordinated, the figures for Memmingen, for example, being included in those for Ulm (Württemberg).

Königliche Bayrische Bank.—This is no bank of issue, but, as the field of its activity, territorially considered, coincides with that of the Bayerische Notenbank, reference is made to it here. It is a government bank and has 20 offices, at all of which, with the exception of one, the Reichsbank is also represented. Many officials have an account with the Königliche Bayrische Bank, and there is even a special kind of check (red, with brown border), which they are to use in making payments to persons or firms having an account at another bank.

In 1907 the bank introduced a giro and check transfer system on a small scale, with free service and a minimum deposit of 100 marks.

A special postal giro business carried on by the Königliche Bank and the Reichsbank within Bavaria deserves mention here. Such persons only are allowed to avail themselves of the advantages that it offers as have an account at one of the branches of the Königliche Bank or at any of the private banks having connections with it, or else at a branch of the Reichsbank located in the same place with a branch of the Königliche Bank. All the accounting is done by the Königliche Bank without charge. The only fee that is exacted is when a postal order is delivered to the sender to serve as a receipt, a charge of two pfennigs being made in such cases. The remuneration which the Königliche Bank gets for its services is in not having to pay interest on the balance of the post-office, which is not to be permitted to fall below the sum of 100,000 marks. (Proebst, "*Die Grundlagen unseres Depositen und Scheckwesens*," 1908.)

Württembergische Notenbank.—The giro business in Württemberg at various dates has been as follows:

Year.	Württembergische Notenbank. Marks.	Reichsbank. Marks.	Per cent of total.	
			Württembergische Notenbank.	Reichsbank.
1876	43,104,900	245,566,500	14.5	85.5
1886	16,359,900	1,085,594,500	1.5	98.5
1896	30,550,800	1,761,102,600	1.7	98.3
1907	433,449,800	4,900,816,600	8.1	91.9

The check transactions of the Württembergische Notenbank are included in the above figures.

Previous to 1901 this bank had no branches. At the beginning of 1901 it established all at once 24 agencies, and the number was increased to 68 by 1908. By far the greater part of the agencies are in very small places. There was a considerable increase in the amount of deposits after 1901, when the policy of allowing interest on deposits was inaugurated. The agencies at the numerous small places in Württemberg were not established for the purpose of extending the giro business. What the bank sought to accomplish, in reality, was to counteract the unfavorable effect of the bank laws of 1901, and it deemed it could do this most effectually by replenishing its stock of bills through accessions from within the class of small business people in the little towns. The practical way to achieve this was not by instituting branches with regular employees, but by installing agencies which were run by small local bankers. As these bankers receive a very fair commission for the bills sent in (one-fourth of 1 per cent), they gladly turn over to the Württembergische Notenbank everything in the way of bills that comes in to them.

Badische Bank.—This was founded in 1870 and has only two offices, one at Mannheim and one at Karlsruhe. It can have no giro business, of course, but it has a system of payments by check, which has assumed considerable proportions since 1903. In that year the aggregate sum represented by the checks drawn by its depositors was 128,000,000 marks, as compared with

70,000,000 marks in 1902, and in 1908 the amount was 287,000,000 marks.

The importance of the giro business of the private banks of issue, it will be seen, is slight. Their arrangements, however, by making the giro network of the Reichsbank closer, supplement to some extent the giro system of that institution. But inasmuch as the Reichsbank is in many instances represented at the same places as the private banks of issue, it would be preferable, looking to the perfection of the giro system, if the entire giro business in any one place were in the hands of a single institution and the Reichsbank were relieved of this extra trouble in the control of the monetary intercourse of the Empire.

3.

The German Post-Check System.

The post-check system would more appropriately be termed the post giro system. For at bottom its purpose is to become a giro system, a system of monetary transfers by means of assignments to, and deductions from, accounts current. What it is aiming at is to make it unnecessary for German letter carriers to be lugging around millions in cash every day. The money sent through the German post-office in 1907 amounted to no less than 13⅓ billion marks. The post-check system has this in common with the giro system of the Reichsbank that it extends over the whole length and breadth of the German Empire, while the activity of all other institutions carrying on a system of giro, as well as check, payments, with the exception of the union of the Schulze-Delitzsch credit associations, is territorially or locally restricted. The giro network and that of the post-check system are connected with each other—although till now not as closely as they should be—by certain channels that render it possible for payments to travel unhindered from the one system over to the other without the intervention of cash. Every establishment of the Reichsbank located where there is a post-check office has a post-check account. In Berlin the imperial treasury and the bureau of securities have a post-check

account. This connection is supplemented by the relation that has existed for years between the imperial post and the Reichsbank in the system of postal orders. The public is enabled to avail itself of the post-check accounts of the Reichsbank in such a way that anyone desiring to have a sum placed to an account current (giro account) in the Reichsbank, whether he have a post-check account or not, can either pay in the money at a post-office (using a *Zahlkarte* or paying-in slip) or have the amount charged to his postal account and thus have a transfer effected to the postal account of the Reichsbank. The giro account in the Reichsbank, which is to be credited with the amount, is indicated on the required postal blank (paying-in slip, red transfer blank, or giro post slip). In this way a person who has a post-check account and is also a depositor in the Reichsbank can have such sums as are placed to his post-check account transferred to his giro account.

In order to facilitate the transfer of a sum from a post-check account to a giro account in the Reichsbank, the following procedure may also be resorted to. The person having the post-check account makes out a check for the amount to be transferred and obtains from the post-check office, in place of cash, a "red check" (Reichsbank check) drawn by the post-check office on its giro account at the Reichsbank. This check can at once be passed on to the Reichsbank, which will place the amount to the giro account of the drawer of the post check. Arrangements have been made for rendering the intercourse between the post-check office and

the Reichsbank as expeditious as possible in order to minimize the loss of time and interest on the part of the public. Checks received at the post-check office before noon are sent in to the Reichsbank by 3 or 3.30 p. m., so that they may be taken in hand before the close of the day.

The post-check system supplements in a most effective manner the giro system of the Reichsbank in that it brings in connection with the five hundred establishments (more or less) of the Reichsbank about 39,000 post-offices and post agencies. As all the post stations are included in the post-check system, the Reichsbank's network of branches is spread out uniformly in a compact manner over the whole Empire. Thus not merely are an immense number of places embraced within the range of this peculiar imperial clearing service for small payments, but those classes of the people who handle only small sums of money are enabled to participate in the operation of monetary settlements without the use of cash. For the giro system of the Reichsbank still bears a rather plutocratic character. It serves especially individuals and firms who have to deal with large sums and frequent payments and who are depositors in the Reichsbank. The petty giro service is therefore reserved for the post-office.

The post-check service in Germany is altogether a new creation, having come into existence as late as January 1, 1909. It is modeled partly on the Austrian pattern. The main difference with respect to Austria, as also with respect to England, consists in the fact that in those countries

there are postal savings banks, in which the public is invited to place capital on interest, while the balances in the German post-office do not draw interest, so that those having accounts, as a rule, will not deposit more than what they consider absolutely necessary.

We regard our system, which does not aim to be anything more than a giro service, as decidedly superior to the other type, that of the postal savings bank, for it would be of no advantage for the credit system of the country if, by means of such a centralized institution as that of the postal savings banks, money and capital were to be systematically withdrawn from the provinces in order, as is the case in England and France, merely to send up the price of government securities, while the provinces are suffering from a dearth of credit. In England and France, as it is, there are numerous complaints regarding the concentration of capital in the metropolis to the prejudice of every other part of the country. A well-organized credit system, however, at bottom means much more for a country than a more or less advanced mechanism for effecting payments, for credit is a vital condition for industry, trade, and agriculture. With us, likewise, the deposits in the post-office are naturally concentrated, the law providing that they be transferred to the Reichsbank, which is to take special charge of them. They therefore serve indirectly, by increasing the stock of cash, to strengthen the central bank of issue. Such an accumulation of money in the general reservoir of the country and its utilization solely in the interest of an advantageous policy in the matter of the rate of interest and for the purpose of effecting a saving in the use of metallic currency can not be regarded

otherwise than as representing the wisest disposition that could be made of these funds—a much better disposition than if the money were immobilized, as is done in other countries, for the sake of driving up the price of government securities.[a]

Within the imperial postal territory—that is to say, the Empire exclusive of Bavaria and Württemberg—nine post-check offices (central post-check bureaus) have been installed. Bavaria and Württemberg, which still maintain their own postal administration, have joined voluntarily with three offices and a single office, respectively. Anyone is permitted to open a post-check account. The post-office can refuse no one. The only condition is the maintenance of a minimum balance of 100 marks, which, as has been said, draws no interest. The accounting is not done at the individual post-offices, but at the post-check offices or bureaus. The installation of no more than nine such post-check offices did not meet with the approval of the public, which complained that this centralization, with the resultant formalities of one kind or another, would prevent the service from being a rapid one and entail much loss of time. This complaint is not wholly groundless. Suppose, for example, that I am a resident of Schweidnitz, having a post-check account, and that I desire to make a remittance to a creditor, let us say, at Lindau. I have, first of all, to transmit the post check to the post-check office with which the Schweidnitz post-office is in connection—the one at Breslau. Here the sum in question is charged to my account. The post-check office

[a] Compare: Dr. Kimmich, *Die Ursachen des niedrigen Cursstandes deutscher Staatsanleihen*, Stuttgart, 1907, Verlag von Cotta.

at Breslau passes on the remittance the same day to the post-check office with which the post-office of the recipient (at Lindau) is in connection—the one at Munich. There the sum is placed to the account of my creditor at Lindau, who is then duly notified. In this case, therefore, four days, or, if a Sunday intervenes, five days, must elapse before the transaction is completed and my creditor actually is in possession of the money. This means a loss of three days' interest as compared with the transmission by means of a postal order. In comparing the fees in the case of the postal orders with the charges for the post-check service, account has to be taken of this loss of interest. If my creditor at Lindau purposes to dispose of the money immediately, then an additional day must elapse (making six days in all), as the post-check office at Munich has, first of all, to be notified in regard to the disposition that is to be made of the sum. The intercourse between cities at which post-check offices are located is of course much more expeditious, which amounts to a discrimination in favor of the residents of such places. Under existing arrangements, in any case, the post check does not afford a suitable means of transmitting large sums, as the loss of interest is considerable and the clearing process is too slow to permit a speedy disposition to be made of the money. Looking merely to the smooth working of the postal administration, this concentration of the post-check traffic at thirteen centers is of course more practical than a decentralized system, with thousands of establishments. In Austria there is but a single post-check bureau, where all the accounts for the entire country are kept.

Lists of persons having a post-check account are published and are for sale. All mail from the post-check offices and post-offices addressed to persons having an account, as well as mail between the various check offices and between these and the post-offices, is forwarded free. Mail from persons having check accounts addressed to post-offices and check offices has, however, to pay postage.

The regulations governing the post-check service are as follows:

For transfers (assignments) from one account to another two kinds of blank forms are employed, identical with respect to their wording—the one an assignment form (*Ueberweisungsformular*) for inclosure in a letter, the other a postal card to be forwarded without a cover. In the case of the latter it is provided that the amount shall not exceed 1,000 marks, while the former may contain a number of assignments or transfers without any restriction of the total amount.

For remittances where the money is to be paid to the recipient in cash a check is employed whose maximum amount is fixed at 10,000 marks. In regard to this cash check there are certain restrictive regulations:

1. It must be an indorsed check.

2. If the name of the payee is on the check, the check office will not pay the amount directly to the recipient, but will deliver it through the post-office at his place of residence. For the purposes of identification, the precautions employed are the same as those to which recourse is usually had in the case of the delivery of registered letters.

3. If the check is made payable in cash at the check office itself, the name of the payee is not to appear on it. This relieves the post-office of the necessity of identification.

4. Cash checks in favor of persons having a post-check account are cashed only when the payee expressly requests payment in cash. Otherwise the amount is placed to the account of the payee.

5. The maximum sum which the post-office undertakes to deliver at the payee's residence is 3,000 marks within an urban delivery district and 800 marks in a rural delivery district. In the case of larger sums it is necessary to go to the post-office for the money.

Payments by telegraph in pursuance of a cash check can not exceed the sum of 800 marks.

A person may make a cash payment at any post-office up to the sum of 10,000 marks and have the amount placed to the credit of some one having a post-check account. For such a transaction a blue paying-in slip is used. Such a paying-in slip may be handed in by persons having no post-check account as well as by those who have one. A single check of this kind may serve for making payments to several persons, in which case a list of the names of the recipients must be attached to it. The cash may be paid in, of course, by means of a postal order. Business firms can have the amounts of postal orders in favor of their branch offices placed by the post-offices to the account of their main office.

Sums collected by the post-office (cashing of drafts, delivery of c. o. d. parcels) may in like manner be directly transferred to a person's account.

The fees in the post-check service are as follows:

	Pfennigs.
1. Money paid in and placed to the credit of a person having a post-check account, for each 500 marks or fraction thereof	5
2. Money paid out in cash at a post-check office or through a post-office: A fixed fee of	5
A supercharge of one-hundredth of 1 per cent of the sum to be paid out.	
3. For each transfer from one post-check account to another	3

In the case of payments coming under the first category the fee is paid by the person to whose post-check account the money is assigned. In the case of the second and third categories it is paid by the person from whose post-check account the money is transferred.

4. If the transactions in connection with a post-check account involve more than 600 entries in the course of a year, there is an extra fee (over and above the regular charge) for each additional entry of	7

The savings effected are illustrated by the following examples, extracted from a lecture delivered by Postrat Stroh in Kassel on February 11, 1909.

A remittance of 200 marks by postal order costs 30 pfennigs; through the post-check service, according to whether it is made by simple transfer [as under (3)], pay-slip [as under (1)], or check [as under (2)], 3, 5, or 7 pfennigs. The saving in the case of a single remittance is therefore 27, 25, or 23 pfennigs.

A remittance of 800 marks by postal order costs 60 pfennigs; through the post-check service only 3, 10, or 13 pfennigs. Saving, 57, 50, 47 pfennigs.

A remittance of 3,000 marks by registered letter [a] costs 70 or 90 pfennigs, according to the distance; through the

[a] The maximum amount of a postal order is 800 marks.

post-check service, 3, 30, 35 pfennigs. Saving, 67, 40, 35 pfennigs in the case of places in the first zone, and 87, 60, 55 pfennigs in the case of places farther apart.

Let us suppose that five different parties desire to pay in 100 marks each, the sums to be placed to one and the same post-check account, and that the total amount, 500 marks, is paid out in cash by the person who has the account in two sums of 200 and 300 marks, respectively, in order to settle claims against him. The fees will be as follows: Five cash imbursements, 25 pfennigs; two cash disbursements, 15 pfennigs (10 pfennigs + 5 pfennigs additional); total, 40 pfennigs. If the transactions were effected by postal order, the fees would amount to 1 mark for the imbursements and 70 pfennigs for the disbursements, or to 1.70 marks in all. Total savings, 1.30 marks. If the person having the post-check account should have the two amounts placed to the accounts of his creditors, then the total fees would amount to only 31 pfennigs, so that the total saving would amount to 1.39 marks. If he should desire to take out the whole of the 500 marks in cash, he will make out a check payable to himself and send it in to the post-check office, which will transmit the amount to him by means of a payment order. The fee for this disbursement will be 10 pfennigs, so that the total amount of the fees for the five imbursements and one disbursement will be 35 pfennigs. This would, therefore, be 65 pfennigs less than if the five persons had made their individual remittances by means of a postal order.

If five imbursements of 200 marks each are made to the credit of one and the same account and the recipient desires to have the whole amount, 1,000 marks, placed to the account of his bank, the fees will be: For five cash imbursements, 25 pfennigs; for the transfer from one account to another, 3 pfennigs; total, 28 pfennigs. If the payments were made by postal orders, the six remittances would cost 1.50 marks. Total saving, 1.22 marks.

The saving in the matter of charges is somewhat diminished in the case of accounts calling for more than 600 entries annually by the extra fee of 7 pfennigs for each entry over and above that number. This additional charge has already had the effect of causing the association of Berlin banks and bankers—the so-called "Stempelvereinigung," to which the large banking institutions of Berlin belong—to resolve to exact from their customers a fee of 15 pfennigs for each post-check payment.

The system of fees and, above all, the feature of non-payment of interest on post-check balances were introduced in order to afford the post-office some compensation for its services and to keep out the great flood of deposits, which it was feared would be to the prejudice of the savings banks and the agricultural credit associations. But there is no doubt that this policy, based partly upon considerations of a fiscal character and partly upon a disposition to cater to the interests of the middle classes, is more or less of a hindrance to monetary intercourse, especially as the fees are not simple, but of a rather

complicated kind, and are more especially burdensome to those who exploit the post-check arrangements most intensively.

The dimensions which it was calculated before the introduction of the post-check service that the business of the first three months would reach—84,000,000 marks and 10,000 accounts—were already far exceeded within the first few weeks. The accessions were numerous from every quarter. The subjoined figures (taken from newspaper reports) show the unexpectedly rapid development. At the nine post-check offices of the imperial postal territory (Bavaria and Württemberg being thus excluded) the total amounts with which post-check accounts were credited in the first five months of 1909 were as follows:

[In millions of marks.]

Month.	Sums paid in by means of pay slips.	Transfers from other post-check accounts.	Aggregate of sums placed to post-check accounts, inclusive of some items not included under the preceding heads.
January	54	25	80
February	101	65	168
March	153	104	259
April	205	148	355
May	219	220	441
Total			1,303

The total amounts charged to post-check accounts were as follows:

[In millions of marks.]

Month.	Sums paid out in cash by the post-check offices.	Sums paid out in cash by the post-offices.	Withdrawals by assignment to another post-check account.	Aggregate withdrawals, inclusive of some items not included under the preceding heads.
January	17	19	26	62
February	50	44	66	160
March	71	79	105	255
April	99	94	148	341
May	115	102	218	436
Total				1,254

The three Bavarian post-check offices, the statistical figures for which, as far as they have come to us, extend only to the close of April, 1909, had at that time 3,026 accounts, with aggregate balances of 3,870,000 marks. The post-check office in Württemberg had at the same date 1,759 accounts, with aggregate balances of 2,760,000 marks.

The total volume of transactions in the whole Empire increased from 1,225,113,000 marks in the first quarter of 1909 to 2,889,910,000 marks in the second quarter, or at the rate of 135.9 per cent. The number of accounts increased from 28,571 at the close of March to 34,897 at the close of June, or at the rate of 22.1 per cent, and the total amount of deposits increased during the same period from 36,797,000 marks to 56,929,000 marks, or at the rate of 54.7 per cent. Of the total amount charged to post-check accounts in the first quarter, 40.3 per cent

was transferred from one account to another without the use of cash, and in the second quarter the percentage was 44.7. The significance of these figures will be appreciated by reference to the fact that the total volume of transactions in the German postal-order service, which was inaugurated in its present form on January 1, 1865, or 44½ years ago, amounted in the calendar year 1907, in round numbers, to 12½ billions.

The proportion of cash transactions remains, nevertheless, very considerable. In April, 1909, for example, 29 per cent of the aggregate of sums charged was entered as cash payments. This consisted, however, in part of red checks drawn on the Reichsbank, which figure as cash payments on the books of the post-check offices, although they represent in reality merely transfers from one account to another.

If we have sought to present a detailed account of the post-check service it is not by reason of the importance which it actually has at the present day. The institution is still too young to possess already a telling quantitative significance in our monetary intercourse; but it will without doubt exercise a revolutionizing influence upon the habits of large sections of our population in the matter of payments and upon the entire mechanism of monetary intercourse in the country. This can only be a matter of time.

4.

Clearing Houses in the German Empire.

The German clearing houses are arrangements instituted for the control and simplification of local monetary settlements. Only a part of the transactions, however, that may be set off one against another at any particular place are cleared by these institutions, and even in this the scope of their activity varies in different places. The operations of the clearing house extend merely to bills, checks, drafts, vouchers, etc., and at some places to stocks also. At Frankfort the handing in of parcels of stock is optional with the members. Local payments, in so far as they represent transactions between persons having an account current with the Reichsbank are disposed of by the Reichsbank by means of the method of crediting and debiting accounts current. There is an exception to this in the case of Hamburg, where the total giro business, local as well as interlocal, passes through the clearing house, having been concentrated before reaching it in no more than five participating banks. In Berlin, too, the local monetary intercourse of those having giro accounts with the Reichsbank is not reserved for the Reichsbank alone, for here the regular clearing house (*Abrechnungsstelle*) has a rival institution in the Bank des Berliner Kassenvereins, which appropriates a large fraction of the business in which no instruments of payment are involved, and also some of the business into which such instruments enter,

especially bills and checks. The Berlin Clearing House comprises only 18 members (not reckoning the Reichsbank) and includes the great local banks, while the Kassenverein embraces all the banks, including many small concerns, altogether about 150 institutions at present. In Frankfort a part of the clearing business is done at the Frankfurter Bank. In Hamburg stocks are cleared by the Wechsler Bank.

The relation of the clearing houses to the Reichsbank is as follows: The balances of the individual members at the clearing houses that are found daily in the clearing of bills and checks (at some places stocks also) are charged or placed, as the case may be, to their account current at the Reichsbank in the same manner as with all other local giro transfers. The function of the Reichsbank in this connection is merely that of directing the operations of the clearing houses, which represent a perfectly independent organism and are not a part of that of the Reichsbank, even though their activity supplements that of the Reichsbank and their operations in the last analysis are merged in those of the bank. The Reichsbank, however, does not merely direct. It is itself an active and passive participant in the clearing business, just as the other members. It makes deliveries for other members and lets other members make deliveries to it. In Berlin the Reichsbank far surpasses all other members in the volume of its deliveries at the Clearing House. The premises of the Clearing House are provided gratuitously by the Reichsbank. The other expenses are borne equally by the members. Membership is confined to banks. The Reichsbank makes agree-

ments with the banks for the regulation of the clearing business. In nearly all these arrangements the obligation is imposed upon the members to hand in for clearing all their paper in the way of bills, checks, and drafts. In Berlin, out of consideration for the Kassenverein, which was active long before the establishment of the clearing house (ever since 1823), the members are at liberty to hand in only such bills as they desire to have cleared. There were seventeen clearing houses in the German Empire at the close of 1908, viz, those at Berlin (opened 1883), Brunswick (1907), Bremen (1884), Breslau (1884), Chemnitz (1902), Cologne (1883), Dortmund (1905), Dresden (1883), Elberfeld (1893), Frankfort (1883), Hamburg (1883), Hanover (1908), Leipsic (1883), Mannheim (1908), Munich (1906), Nuremberg (1906), Stuttgart (1883).

DEVELOPMENT OF THE CLEARING BUSINESS IN GERMANY.[a]

[In thousands of marks.]

Year.	Items.	Total amount.	Average.	Placed to giro accounts.	Ratio of clearings to total items expressed in per cent.	Members.	Number of clearing houses.
1883	149,550	887,547	5.9	----------	--------	85	7
1884	1,979,012	12,130,196	6.1	3,121,843	74.3	112	9
1890	2,825,314	17,991,301	6.4	4,162,441	76.9	116	9
1900	5,186,237	29,472,744	5.7	6,533,468	77.8	126	10
1905	7,341,995	37,602,991	5.1	8,543,437	77.3	137	12
1908	10,531,271	45,960,854	4.4	9,869,551	78.5	198	17

[a] "The German Clearing Houses in the Year 1908," compiled in the statistical department of the Reichsbank.

The place that leads in the volume of business is, of course, Hamburg, where the local giro business was highly

developed at an early period and where the development of the clearing business has taken a peculiar course, unlike what has been witnessed in other places.

In comparing these figures with the aggregates of clearing operations in other countries, as England and the United States, an important factor must be borne in mind without which the view obtained from the statistical columns would be a distorted one. In England and the United States the volume of check transactions is much greater than with us, while in Germany the giro transfer has assumed the functions that the check performs in those countries. Now, inasmuch as in England and the United States the checks are cleared in the clearing houses, while the giro transactions of the Reichsbank do not figure in the clearing-house statistics, an international comparison of the volume of monetary transactions effected without the use of cash could be undertaken only if we were to add to the aggregates of the German clearing houses so much, at least, of the giro business of the Reichsbank as is effected by means of transfers to, and deductions from, accounts current, which constitutes by far the greater part. All the same, the low figures of our clearing-house statistics show how little the clearing business, as regards bills and checks, has till now been developed in this country. The figures, it is true, exhibit a rather considerable increase, but then unfortunately allowance has to be made for the circumstance that the introduction of the system of monetary settlements without the use of cash was with us a rapid process. The clearing houses, furthermore, encountered for a long time a rather inex-

plicable opposition on the part of the participants themselves, which explains the fact that a number of important commercial and industrial centers did not institute a clearing house until very recently.

(*a*) CLEARINGS IN CONNECTION WITH MORTGAGE BANKS.

A field in which the system of monetary settlements without the use of cash has thus far not succeeded in taking firm root is that of transactions in connection with mortgages. This is not strange under the circumstances. Legislation has invested the mortgage business with much red tape, thus throwing obstacles in the way of that facility of transfer so essential to easy and rapid monetary settlements. In spite of this, an attempt has been made to open up this field also for the clearing system by the establishment on April 1, 1909, of a mortgage clearing house, which, however, will still have to show that it is able to exist. It is true, indeed, that the organization of the mortgage business in Germany appears much better adapted to clearing operations than is the case in other countries, inasmuch as a great part of this business is concentrated in about forty banks and in the insurance companies, which invest their vast funds above everything in mortgages. The insurance companies are, however, decidedly opposed to mortgage clearings and but few have become members of the mortgage clearing house. Mortgage instruments are such a stubborn material for clearings that it seems doubtful whether the anticipations of a successful development of the system of mortgage clearings will be realized. The

experts in connection with the bank inquiry commission of 1908 declared that the system of mortgage clearings was a stillborn product.

(*b*) BANK DES BERLINER KASSENVEREINS.

Berlin has two clearing houses—the Kassenverein and the Clearing House, so-called *Abrechnungsstelle*. The Bank des Berliner Kassenvereins was founded in 1850 as the continuation of the Kassenverein, which had been in existence twenty-seven years, and is organized as an independent joint stock company. The Abrechnungsstelle was not established until 1883. The two institutions have developed very differently, as is natural from the difference in their ages. The Kassenverein, the regular local giro (transfer) institution for the Berlin banks, has in a measure grown up with the business of the city. It is more closely related to the banking world of Berlin and has more points of contact with it than the Abrechnungsstelle. This is evident from the respective memberships and the difference in the volume and character of their business. In the middle of 1909 the Kassenverein had 147 members—banks and bankers of Berlin and its vicinity—while the Clearing House had only 19 members, inclusive of the Reichsbank. The Kassenverein is not merely a clearing house, but is also a cashing and collecting establishment, an institution for stock clearings, etc. The two institutions thus operating side by side are, moreover, connected with each other. The Kassenverein is a member of the Clearing House and hands over to it such bills and checks for clearing which it receives from its members and which are drawn upon members of the Clearing House or are domiciled with

them. The Kassenverein holds precisely the same position at the Clearing House as the other members of that establishment. An interesting feature of the situation is, therefore, that the activity of the Kassenverein, in spite of its character as a local clearing establishment, merges ultimately in considerable part in that of the Reichsbank. Its giro transactions in connection with the Reichsbank amounted in 1908 to nearly 3,500,000,000 marks and at the Clearing House to over 5,000,000,000 marks. The large aggregate of 8,500,000,000 marks evinces plainly the close connection between this institution and our central bank of issue.

Out of consideration for the arrangements and business of the Kassenverein, which has been in existence much longer than the Clearing House, the Reichsbank, contrary to its action in the matter of imposing conditions at other places, has made the concession with respect to the Berlin Clearing House that the clearing shall be restricted to such bills and checks which the members may desire to have cleared between them. In Berlin, therefore, the clearing at the Clearing House is optional; there is no obligation upon the members to hand in all their paper.

In spite of its having two clearing houses, Berlin is not on a level with Hamburg in the matter of monetary settlements by means of transfers and clearings. The fault is not with the clearing houses, but with the public. In Hamburg all classes of the population have bank accounts and are in the habit of making even the smallest payments by means of current-account transfers in the bank, while in Berlin this is not done so extensively.

The following table shows the importance of the business of the Kassenverein and the extent to which its transactions are effected by means of transfers and clearings:

BUSINESS OF THE KASSENVEREIN IN 1908 (RECKONING AMOUNTS RECEIVED AND AMOUNTS PAID OUT).

	Marks.
Cashing and collecting bills, stocks, and accounts	14, 823, 843, 100
Of the above amount nearly 13,500,000,000 marks, or 90.9 per cent, was settled by transfer and 1,355,000,000 marks by means of cash payments.	
Giro transactions (cash payments, transfers to accounts current in connection with daily bookings, debits in connection with checks, deductions from accounts current)	19, 577, 664, 700
Giro transactions at the Reichsbank	3, 459, 412, 700
Transactions at the clearing house in the Reichsbank	5, 087, 931, 500
Banking transactions	284, 008, 700
Total	43, 232, 860, 700

The total of the deliveries at the Berlin Clearing House in 1908 amounted to 15,780,000,000 marks. Of this 61.1 per cent was cleared and the remainder transferred on the books of the Reichsbank.

The Kassenverein undertakes to collect or cash for those having giro accounts with it bills, drafts, checks, stocks, accounts, and vouchers, whatever is payable in Berlin, up to any amount. In the case of bills and drafts the district within which collections are made embraces the Berlin postal district, while for the remaining kinds of instruments a special (inner) collection district has been instituted. In the case of the latter, however, by special arrangement, the larger district may be substituted for the inner one.

By the side of the cashing and giro business the Kassenverein has had since 1882 the so-called "giro stock depos-

itory," instituted for the purpose of expediting business at the Bourse. In this department the members of the Kassenverein receive certain stocks for safe-keeping, the documents being at all times at the disposition of the customer. If he wants to dispose of them, he is furnished with special checks for the purpose. He makes use of a white check if he wishes simply to take out his securities, of a red check if he wishes to transfer his shares to another customer, and of a green check if the stocks are to be used as collateral on a loan.

Pretty nearly all the stock-transfer transactions between the Berlin banks are effected through the channels of the Kassenverein. The bank which has to deliver the stocks hands them in with the bill to the Kassenverein. There the account of the recipient is charged with the amount represented by the stocks and the documents are handed out to him.

Inasmuch as the business of this general clearing house is of such a manifold nature, a vast number of items can be set off one against another. The so-called "great banks" of Berlin have daily thousands of mutual stock and money transactions to settle among themselves that admit of being cleared at this common central bank by mere transfers to, or deductions from, their accounts. With an average aggregate credit balance of only 14,000,000 marks, sums amounting to no less than 9,800,000,000 marks were placed in 1908 to the credit of (and charged to) holders of accounts.

The annual charges for cashing (collecting) and giro services, fixed every year in advance, range from 100

marks to 4,500 marks, according to the extent to which the bank's services are brought into requisition.

The minimum credit balance (below which the deposit is not permitted to drop) is fixed at 300 marks.

In the department of the giro stock depository each member has to pay an initiation fee of 100 marks and an annual contribution for current expenses (which is paid in advance), which is fixed according to the amount of business that is anticipated, and ranges between 100 marks and 3,000 marks, the management reserving to itself the right to alter the amount should the volume of the transactions call for a change.

The "great banks" in Berlin pay each annually the sum of 4,500 marks for the use of the arrangements of the Kassenverein, which seems a ridiculous amount when we consider the immense advantages which every one of these banks derives from the common institution. It would be hard to calculate how many messengers the banks can dispense with by reason of the services performed by the Kassenverein. Nor can one easily overestimate the benefit derived from the systematic conduct of the cashing and collecting business of a great city by a single institution. We have seen in the table given above that in this department nine-tenths of the total volume of transactions is settled by transfer and only one-tenth by cash payments. Thirty years ago the respective fractions were three-fourths and one-fourth. This branch of the business of the Kassenverein has quadrupled since 1876. On some days the total volume of cashing and collecting transactions exceeds the sum of 500,000,000 marks.

(*c*) THE FRANKFURTER BANK.

Frankfort-on-the-Main, like Berlin, has two clearing houses—the Frankfurter Bank and the Clearing House, so-called (*Abrechnungsstelle*). The Frankfurter Bank is not exclusively a clearing house. Until within a few years it was a bank of issue, but in 1900 it surrendered its privilege as such, and since then, in addition to its capacity as a clearing house, it is simply a bank of deposit. It is prohibited by its charter from engaging in any operations involving risk (blank credits, flotation of securities, etc.). Contrary to what takes place in Berlin, the Clearing House at Frankfort has the larger share of business.

The figures of the clearing business (outside of checks) of the Frankfurter Bank for 1908 were as follows:

Accounts		119
Bills and drafts handed in		215, 799
Parcels of stock handed in		131, 944
Total sum placed to credit of holders of accounts	marks	1, 833, 880, 000

The figures of the business of the clearing department in connection with checks were as follows:

Checks handed in		26, 973
Total amount	marks	1, 154, 199, 000
Total amount settled by cash payments	do	259, 346, 000
Amount settled by transfers on books	do	894, 853, 000

The figures of the business of the Clearing House for 1908 were as follows:

Members		21
Instruments handed in		509, 013
Total amount	marks	5, 324, 539, 000
Total amount transferred to the giro account of members	marks	735, 014, 000
Ratio of amount cleared to total amount	per cent	86. 2

Since 1905 the cashing and collecting business has been exclusively in the hands of the Frankfurter Bank. Previous to that date the Reichsbank had a share in it.

5.

Industrial and Agricultural Cooperative Societies.

There is no country in the world in which cooperative societies have come into existence on such an extensive scale as in Germany. At the beginning of 1908 Germany had 26,851 such associations, with a total membership of 4,105,594. Of these, 16,092 were credit societies. It is with this class alone, whose participation in the monetary intercourse of the country is by far the most extended, that we have to deal here. The savings and deposits in these societies amounted in 1907 to about 2,500,000,000 marks, which is approximately equal to the total deposits in the hands of the so-called "great banks" in Germany. The classes of the community in which these societies are active are the small tradespeople and manufacturers, artisans, husbandmen, etc. There are two groups of societies that merit consideration in connection with the subject of monetary intercourse, the Schulze-Delitzsch credit societies and the Raiffeisen loan societies.

The Schulze-Delitzsch societies, which include mainly the small tradespeople and manufacturers throughout the Empire, have for their central monetary and credit institution the department of cooperative societies in the Dresdner Bank at Berlin and Frankfort. This department is the successor of the former Deutsche Genossenschaftsbank of Soergel, Parrisius & Co., a joint-stock company, which

in 1904 terminated its independent existence by being incorporated in the Dresdner Bank. This Deutsche Genossenschaftsbank was founded in Berlin in 1865. Soon after its establishment it installed a union among the various societies for the purpose of effecting monetary settlements by means of book transfers (*giro*), with its central office at Berlin. This was the first extensive German clearing establishment. After the Franco-German war a second central accounting office was established at Frankfort. This giro union at present undertakes for the credit societies belonging to it (not for the individual members of these societies) the collection of bills free of charge. Besides this it effects a constantly increasing volume of transfer and other monetary transactions for its members. The union is organized in such a manner that the management of its business is centered both at Berlin and at Frankfort, and the members are free to have an account at one place or the other or at both places. The entries are made on the books without charge and interest is allowed on balances. All collections go to one central office or the other and are there sorted out and the respective amounts are then assigned to the members—that is to say, the societies. This is an arrangement which German joint stock banks and bankers had in contemplation not long ago with reference to their check transactions, but failed to put into practice. The societies must be given the credit of having got considerably ahead of the banks in the matter of organization. In 1907 the giro union had 703 giro members (562 credit societies and 141 joint stock companies), representing 666 localities.

The number of giro and collection places was 1,787, which makes a much closer network than that of the Reichsbank.

GROWTH OF THE BUSINESS OF THE GIRO UNION.[a]

Year.	Giro and collection places.	Bills handed in.	Total amount of bills handed in (million marks).	Total volume of giro transactions (million marks).
1874	270	67,256	22	34
1884	629	210,266	53	82
1900	1,093	476,853	150	260
1905	1,627	615,275	221	415
1907	1,787	688,580	270	650

[a] Jahrbuch des Allegemeinen Verbandes der auf Selbsthilfe beruhenden deutschen Erwerbs- und Wirtschaftsgenossenschaften für 1907, published by Dr. H. Crüger.

In 1899 the Genossenschaftsbank announced its readiness to cash or collect checks drawn on its members without charge. This action was followed by the establishment of a check association on the part of a number of credit societies, every member of which was bound to take checks drawn on any other member and cash or collect them without charging anything for the service. At the present time the checks of the members of the union are payable without charge at the offices of the Dresdner Bank in Berlin, Frankfort, Hamburg, and Nuremberg. The total sum represented by the checks thus disposed of without charge at the Berlin and Frankfort offices increased, in round numbers, from 11,000,000 marks (22,000 checks) in 1899 to 19,000,000 (41,000 checks) in 1901, 32,000,000 (60,000 checks) in 1904, and 49,000,000 (104,000 checks in 1907).[a]

[a] *Blätter für Genossenschaftswesen*, 1908, No. 20.

It is not possible to present more than a partial view of the aggregate of the check transactions of the credit societies, as many of them do not furnish reports. The following tables[a] give the data as far as the statistics are available:

CHECK TRANSACTIONS OF THE CREDIT SOCIETIES.

Year.	Societies having a check business.	Societies publishing reports of check business.	Checking accounts.	Total amount paid in by holders of checking accounts (million marks).	Total amount withdrawn by holders of checking accounts (million marks).
1904	338	243	32,513	423	410
1907	389	327	44,657	637	618

CHECK TRANSACTIONS OF THE CREDIT SOCIETIES. STATISTICS OF WITHDRAWALS.

Year.	Total amount paid out in cash.		Local checks handed in for transfer of amount to credit of another holder of an account.		Checks sent in from other places for transfer of amount to credit of another holder of an account.	
	Amount (million marks).	Checks.	Amount (million marks).	Checks.	Amount (million marks).	Checks.
1904	358	396,091	14	15,803	38	53,444
1907	533	582,541	28	15,536	51	101,629

[2] The Raiffeisen loan societies are also organized into a check union, having two clearing houses: For Prussia, the Preussische Centralgenossenschaftskasse (Prussian Central Bank for cooperative societies), with its seat at Berlin; for the remainder of Germany, the Landwirtschaftliche Reichsgenossenschaftsbank (Agricultural Cooperative Societies' Bank), a joint stock company, with its seat at Darmstadt.

[a] Crüger, *Jahrbuch*

We have no complete statistics regarding the check transactions of the Raiffeisen societies. We may say, however, that, as far as it is concentrated in the two clearing houses, it is manifestly on a relatively smaller scale than the check business of the Schulze-Delitzsch societies. This is explained by the fact that the Raiffeisen societies are agricultural associations, the volume of business transactions being always much smaller in the case of agriculture than in that of manufacturing industry or commerce.

The Preussische Centralgenossenschaftskasse is a state bank. The following institutions were connected with it in 1908: Industrial and agricultural cooperative societies included in the Association's Register, 53; loan associations of the landed gentry, 8; institutions organized by associations of communes, 6; public savings and communal banks, 591; individual associations, firms, private persons, etc., 505; various public treasuries, guardians, etc., 170.

CHECK TRANSACTIONS OF THE PREUSSISCHE CENTRALGENOSSENSCHAFTSKASSE.

[In marks.]

Year.	Checks drawn by depositors.	Paid in cash by the Preussische Centralgenossenschaftskasse.	Placed to the account of depositors.	Collections through the Prussian treasury.	Cleared through the clearing house at the Reichsbank (or at the Kassenverein).
1895–96 -----	7,000,725	4,812,447	Not reported.	943.607	1,244,671
1899–1900 ---	26,987,329	10,132,930	Not reported.	10,357,086	6,497,312
1907–8 ------	45,788,590	10,672,524	738,114	13,163,992	21,213,958

Checks drawn upon the Preussische Centralgenossenschaftskasse will be received at the various offices of the Reichsbank and at the royal treasuries in Prussia (local

as well as main treasuries) and may be presented at the offices of the administration of indirect taxes in payment of customs and taxes. Payments may be made at all the Prussian main and local treasuries, including those located at places having a branch of the Reichsbank, by means of checks drawn on the Genossenschaftskasse, without regard to the nature of the drawer. They may be used, for example, by communes in turning over direct taxes to the royal treasury. The Genossenschaftskasse defrays all costs of collection. The Reichsbank makes no charge for collecting the checks. The royal treasuries exact a small fee, deducting 20 pfennigs for postage. The volume of check transactions at the Darmstadt Bank, which effects the clearings for the Raiffeisen societies outside of Prussia, is insignificant. The total of the credits in the year 1905–6 was only 1,172,000 marks.[a]

It is evident from this sketch that the credit societies have not much to do with the Reichsbank, as they have established their own transfer offices. For this reason, out of the total number of cooperative societies (not merely the credit societies which we have here mentioned) there were on March 31, 1908, only 629 that had a giro account with the Reichsbank. The total of their balances was only 6,474,000 marks, the average balance being 10,293 marks.

[a] Buff: *Der gegenwärtige Stand und die Zukunft des Scheckverkehrs in Deutschland*, 1907.

6.

Public Savings Banks.

Of all financial institutions, the savings banks concern themselves least with the matter of monetary intercourse without the use of cash. They have practically no check or giro transactions with their customers. At the present time, it is true, most savings banks have an account current with the Reichsbank if there is a branch of that institution at the place where they are located. This giro account is, however, made use of only in the mutual dealings of the savings banks or in transactions between them and the public treasuries. There is nothing whatever in the way of a giro system in connection with the depositors in the savings institutions. Everything is settled in cash. This is due to inherent causes. Our savings institutions are not banks in the proper sense of the term, but public institutions run more for the benefit of the community than for profit and having the communes as guarantors. They are managed, furthermore, not by individuals who have gone through a regular training in the principles and practice of banking, but by administrative officials. The savings institutions offer to take care of petty savings and pay interest on them, and therefore lend their services mainly to the little people of small incomes. It is estimated that about 70 per cent of the deposits is made up of sums averaging

no more than 600 marks. This class of the population has no monetary intercourse worth mentioning, the savings representing money that has been laid aside because it was not absolutely needed for the regular household expenses. In addition, there is that slowness inherent in the antiquated methods that obtain in the savings-bank business. All sums placed to the account of a depositor or withdrawn by him have to be entered in a pass book, which he is permitted to keep, so that the transfer of a sum from one account to another can not in reality be effected without some sort of a technical formality.[a] The post-check system inaugurated at the beginning of 1909 has rendered the services of the savings banks in connection with monetary intercourse practically unnecessary. The savings institutions are not empowered to allow checks to be drawn on them except under certain conditions imposed by the ministers of the individual states of the Empire. The conditions hitherto laid down, particularly in Prussia, are not of such a nature as to induce these institutions to make efforts to popularize the use of checks or the system of payments by assignments from one account to another among the classes having most to do with savings banks. In Saxony only have some notable results in this direction been achieved in recent years. A Bremen institution, the Bremer Sparkasse, occupies an exceptional position. This savings bank is a member of the Bremen

[a] Quite recently some slight innovation has been made tending in the direction of rendering it possible to introduce a system of checks and giro transfers.

clearing house. From a report, published in 1907, giving the results of an inquiry concerning the use of checks in Germany, it appears that at that time only a single savings bank, the Lippische Landessparkasse, permitted checks to be drawn upon it. A few savings institutions have entered into connection with the post-check service.

In the whole of the German Empire, exclusive of Brunswick, there were, at the close of 1905, 2,843 savings institutions, with 6,284 branches. Their deposits amounted to over 12,500,000,000 marks, distributed among about 18,000,000 accounts. The deposits are increasing at the rate of about half a billion marks annually. The enormous sum of money that is deposited and withdrawn every year necessitates the use of an immense amount of cash.

Even among themselves the savings institutions have not reached the point thus far of creating an organization for their mutual monetary intercourse within the narrow bounds of the single states, not to speak of the whole Empire. All they have done is to come in touch with one another to some extent in what concerns their general and individual interests.

Some progress in the right direction has been made, indeed, by the entry of so many of these institutions into relations with the Reichsbank and the consequent transfer to it of considerable sums of cash that were hitherto tied up in their coffers. The strengthening of the stock of cash in the Reichsbank from this source is at any rate that much gain.

7.

Concerning the use of Checks in Germany.

The great development of the system of payments by means of deposits and assignments from one account to another (the system of giro transfers) has had the effect, as we have before pointed out, of preventing the use of checks from becoming as general in Germany as it is in England and America. As long as people in general are not in the habit of having bank accounts, there can be no such thing as a widespread use of checks in making payments. An active propaganda in this direction has indeed been instituted in recent years in various quarters, but the imperfect arrangements existing in Germany in the matter of payments by check are not capable of being developed very rapidly, and still less easy is it to change the habits of the people as they assert themselves in monetary transactions.

Some of the factors acting against the extension of the use of checks in Germany have, at least partially, been removed in recent years. The laws relating to checks, whose enactment was so loudly demanded, went into effect on April 1, 1908. The opposition of the government authorities to every method of effecting payments without the use of cash, if it has not been overcome, has at least lessened. They, too, are beginning to show a greater appreciation of modern arrangements in the matter of payments.

The movement in favor of the legislative regulation of everything pertaining to the use of checks may be said to have been started about thirty years ago. As far back as the eighties of the nineteenth century the management of the Reichsbank prepared a scheme of a body of laws relating to checks, which, however, was not legislated upon. The president of the bank, Doctor Koch, especially, labored with untiring zeal in his efforts to impress upon the public the necessity of enacting regulations regarding checks. The demand became more and more emphatic as years went by until finally the continuous monetary stringency of the 1905–1907 period made legislation in the way of a definitive code imperative. The rise in the rate of interest to 7½ per cent, in particular, brought to the front the problem of devising means of increasing the proportion of payments effected without the use of cash. The Imperial Government showed itself disposed to give effect to the agitation, which was based both on theory and on practical experience, and published in the Reichsanzeiger of July 13, 1907, the text of a bill relating to checks, framed on the whole in accordance with the wishes of the business community. The laws were promulgated in their definitive form on March 14, 1908, and went into operation on April 1.

The requirements which these laws lay down for checks are contained in paragraph 1.

The check must contain an order from the drawer to the drawee to pay a definite sum out of the money due the drawer or placed at his disposition. The law requires

that the words indicating the source whence the payment is to be made be thus placed on the check (aus meinem [unserem] Guthaben, i. e., generally speaking, the balance in one's favor). If the drawer, notwithstanding the words relating to the balance in his favor, has in reality no such balance on which he can draw, the validity of the check will not be impaired thereby. What the law understands by the term "Guthaben" is explained in detail in paragraph 3. The statement reads as follows: The balance (*Guthaben*) is to be taken to be the sum of money up to which the drawee, according to the relations which the law considers as existing between him and the drawer, is bound to pay checks drawn on him. It is not necessary, therefore, that a definite sum be deposited with the drawee. A credit up to the amount of the check will suffice, and likewise a balance resulting from discounted bills, or one derived from a loan or from an imbursement made by a third party, etc.

An important matter is the regulation of the right to act as drawee. This right is restricted mainly to banks and bankers. This limitation, which is in sharp contrast to what obtains in France, where the right to act as drawee is not restricted, is altogether as it should be with reference to the efficiency, regularity, and simplicity of the mechanism of check payments. It constitutes a factor of especial importance in relation to the matter of monetary settlements without the use of cash, for a check ought to be liquidated not by means of a cash payment, but by the transfer of the amount from one account to another, and in order to promote this latter operation a certain con-

centration of the check traffic is necessary. Checks ought to be set off, one against another, as far as practicable, through the agency of the clearing house. Now the members of the clearing houses are exclusively banks and bankers. For this reason, the principle embodied in the check laws with respect to the right to act as drawee should be regarded as an efficacious one. The capability of a check to pass from hand to hand has been enhanced by the regulations in regard to the right of recourse. The drawer and the indorsers of a check are liable to the holder for the amount of the check. The holder of a check, therefore, derives his claim in the matter of the payment from the document itself and is not obliged to establish it by going back to his legal rights in connection with the transaction which gave birth to the check.

In order to insure the regular and orderly working of the mechanism of check payments, it is necessary that the life of the check be limited. Legislation has had due regard for this requirement. By a provision regarding the time within which the instrument has to be presented for payment the life of the check is restricted to ten days. That is sufficient, for the check ought to be primarily an instrument of payment and not a part of the circulating medium, as whatever insecurity inheres in the system of payment by check becomes greater the longer the checks circulate. The limitation of the life of the check is effected by the provision that after the expiration of the time within which the check has to be presented for payment the drawer has the right to revoke the check and the

indorsers are released from their obligation in the matter of payment.

A special provision has been enacted in order to avoid placing obstacles in the way of the operations at the clearing houses. As the handing in of a check at the clearing house would often result in the impossibility of presenting it for payment within the time limit, it is provided that legal evidence of the presentation of the check for payment within such limit will be afforded by the certification on the part of the clearing house that the check had been sent in and not collected.

It is a matter of no little importance with respect to the general diffusion of the use of checks, and especially small checks, and the popularization of this instrument of payment, that hitherto no tax has been imposed on check circulation. Antedated checks only are subject to a stamp tax, and likewise, naturally, such documents which do not conform to the requirements for checks and consequently are not checks. Foreign checks are valid and not subject to stamp tax if they conform to the requirements imposed by the law of the country in which they are drawn. In recent years, however, the immunity of the check from taxation has been threatened by the necessity of instituting new taxes in order to meet the needs of the imperial treasury.

The objections which have been advanced to the general use of checks, based upon considerations with respect to their undefined legal status, appear, therefore, to have been set aside by the laws recently enacted in a spirit so favorable to this instrument of payment. It

would, of course, be a mistake to imagine that the framing of regulations with respect to checks will in itself lead to a rapid development of the system of payment by check. It may be said, however, that they have laid a good and solid foundation for the development of this form of monetary intercourse in Germany. We shall have to await the results. "A law can not," as Georg von Siemens has said, "secure for us reliable bankers or teach a public fond of speculation to be thrifty, or provide all the arrangements that are indispensable for the development of a system of payment by check. It can not provide a clearing house for us. All this has to be left to the organized activity of private individuals, and the Reichsbank ought to place itself at the head of the whole organization."

The policy of the Reichsbank has, as a matter of fact, not conformed hitherto to the desires expressed by Siemens. The bank has, indeed, done everything for the system of payments by means of bills of exchange, but it has not in like manner promoted the use of checks, although the preponderance of the check by the side of the bill of exchange would imply a much healthier state of the country's business. For, to quote Siemens again, "the man who sells a bill of exchange needs money and the man who sells a check has money."

We may say a few words here regarding a peculiar feature of the system of payment by check that has been introduced in this country and with respect to which provisions have been inserted in the check laws with the object of promoting the efficiency of this form of monetary

intercourse. It is provided that in connection with the business of the Reichsbank and the clearing house a check may be rendered nonpayable in cash by placing across its face the words "*Nur zur Verrechnung*" (for account only), which means that the liquidation of the check is to be effected only by the transfer of the amount to the account of the payee. Such transfer is a payment according to the purport of the law. The prohibition can not be revoked. Its violation renders the drawee liable for any damage resulting from his act. A large fraction of all the checks drawn are thus crossed. The cost of transmitting such checks is diminished, as they need not be mailed in a registered letter and may even be transmitted in the form of a postal-card check, this form having been introduced by the Bavarian branch of the Deutsche Bank. Another advantage is that there is less danger that the amount of the check will be appropriated by some person having no right to it. The use of crossed checks is, however, restricted by the circumstance that in this country people are not so generally in the habit of having bank accounts, without which the holder of a crossed check can not get hold of his money. All the same, the crossed check is now very widely employed in Germany and is recognized by the law, which ought to be regarded as a good thing with reference to the furtherance of the system of monetary settlements without the use of cash.

Certified checks, which are extensively used in other countries, do not enter into the purview of our check laws, or, more strictly speaking, our check laws have made such checks impossible, as a certification would imply an

acceptance of the check by the drawee, which would be in contravention of paragraph 10 of the check laws. As a matter of fact, certified checks were not used in this country even prior to the promulgation of the laws.

The mechanism of check payments is operated by the private banks, the main agents being the so-called "great banks."[a] With some insignificant exceptions, banks and bankers have the exclusive privilege of allowing checks to be drawn upon them. This was practically the case even prior to the promulgation of the check laws. At most, here and there a few checks might be seen drawn upon mercantile houses. With the concentration, however, of our banking business, at the expense of the private bankers, greater trust is placed in the bank that is drawn upon. The question of the standing of the bank is no longer such an important factor in the taking of checks. It is the rapid growth of the "great banks," the largest of which extend their ramifications over the whole Empire, that has paved the way for the use of checks on a large scale. This is in spite of the fact that our great banks have very few branches compared with the banks in other countries, especially England and France. In the case of France, however, we find that, although the great banking institutions have such a large network of branches, the use of checks has not become so very extended, so that our great banks with their few branches have relatively accom-

[a]Among other institutions empowered to have checks drawn upon them are the Reichsbank, Seehandlung, Königliche Bayrische Bank, Preussische Zentralgenossenschaftskasse, Preussische Rentenversicherungsanstalt, savings and credit institutions, other public banking institutions, agricultural and other loan associations, registered provident associations, and offices of the imperial post.

plished much in laying a broad foundation for this system of payments. There are unfortunately factors that operate to prevent the existing arrangements from being exploited as they should be. It is a peculiar fact that the concentration of the banking business in this country has not been effected by the establishment of numerous branch banks, but by the linking of the provincial banks with the great banks. Pretty nearly every one of the provincial banks is included at the present day in the system of one or another of the great banks, being linked to it by community of interests or permanent participation of the great bank in the business of the provincial bank, or else by reciprocal holdings of each other's shares, or perhaps connected with it merely by agreements or friendly relations. These points of contact, the connections existing between the banks, sufficed in an eminent degree to provide the necessary conditions for the development of the system of payment by check. For in this country—and this is a further peculiarity of the development of our banking system—the establishment of branch banks has been undertaken in the main by the intermediate provincial banks. These have spread a great network of branches over their geographically circumscribed field of operations, so that in a great many cases they have more branches than any single Berlin "great bank," although in the end they are embraced within the sphere of activity of some one of these great banks. Among the institutions that have an especially large number of branches are the Pfälzische Bank (Bank of the Palatinate), the Rheinische Kreditbank, the Magdeburger Privatbank, and the Bergisch-Märkische Bank, not to speak of many others.

These provincial banks, as we have seen, enter into close connection with the great banks whose seat is in Berlin. The organizations formed in this way are the product of the last few years, a fact of great significance with reference to the history of the development of our system of payment by check. Such organizations (Konzerne) are the Deutsche Bank, Dresdner Bank, A. Schaaffhausenscher Bankverein, Darmstädter Bank, and the Diskonto-Gesellschaft. These institutions, in the manner in which they have developed this system of monetary intercourse, have in one respect gone even beyond the English model. Checks drawn upon them are made payable at all the principal cities, and in some cases even at the medium-sized and small places, especially where there are banks with which they have friendly relations, no charge being made for this privilege. In addition to the institutions belonging to such an organization, many banks and bankers who are good customers of the great bank or are otherwise in close touch with it are willing to have the checks made payable at their offices. We must bear in mind that the great banks will make use only of such provincial banking institutions for the performance of this service as they consider absolutely sound, so that, in addition to the advantage which the provincial banker derives from the fact that his checks are in this way rendered a universally accepted instrument of payment, his standing is raised through his formal connection with the great bank. His checks, being payable at the great bank, are accepted without hesitation by the public. The individual

great banks have organizations extending over the whole of Germany. The checks of the Deutsche Bank, for example, are payable at 134 places, no fee being exacted at any of them. Quite recently, when a vigorous propaganda was carried on by the banks in behalf of the use of checks, the number of provincial towns at which checks might be made payable was greatly increased.

In 1907 the question of the establishment of a national clearing house was actively discussed by the Berlin banks. It was proposed that the membership of the national clearing house should comprise only the members of the Berlin clearing house. Every provincial banking house was to appoint one or more members of the Berlin clearing house as its agents and to transmit to them every day the checks that had come into its hands, which checks were then to be handed in to the national clearing house. Such an institution would have been an ideal arrangement for increasing the volume of payments effected without the use of cash, but the times were not yet ripe for the realization of the scheme. It fell through on account of the opposition of the South German banks. The dominant position occupied by Berlin in the domain of banking would be further strengthened by the concentration at that place of such an important part of the monetary intercourse of the country, and the provincial banks, which had already been deprived in a large measure of their importance, refused to lend a hand to something that would promote this tendency.

The German banks, as we have seen, have progressed beyond the English banks in that provincial checks drawn on Berlin are payable also at a number of provincial establishments, while in England checks drawn on London are, as a general thing, payable only in London. The English way has, of course, a decided advantage as regards the matter of clearing. It is necessary to add, with reference to this system in which checks are made payable at various places, that what we said above regarding the nonpayment of fees applies, as a regular thing, only to checks that are presented for payment over the counter. When the amount of the check is to be transferred by a nondepositor to an individual or firm by Reichsbank giro the banks in many cases make a charge. The reason assigned is that a giro transfer involves considerably more trouble than a cash payment by reason of the larger number of entries, the writing out of the Reichsbank check, and the sending of a letter of advice, and that the transaction with the Reichsbank is by no means without some expense to the banks themselves (an increase in the number of transactions necessitating an increase in the minimum balance at the Reichsbank). People who are in the habit of handing in checks to the banks in this way are apt to complain of the trouble accompanying the use of checks. This would not happen if everybody would open a checking account and have the amount of the check he hands in transferred to his account without charge, as is done in the case of such accounts. It would then be immaterial whether the check was drawn on the

same place or any other town in Germany ever so remote. Naturally, when a check is handed in at one of these provincial banks it is not paid immediately on presentation, but only after inquiry has been made at the bank drawn upon to make sure that there is nothing wrong about it. This usually takes two or three days. To this extent, therefore, the check is not an altogether perfect instrument of payment, inasmuch as during this interval the liberty of disposing of the amount is lacking (in so far as the person who hands in the check has no bank account), and the payee virtually gives the drawer a credit up to the amount of the check for the time that elapses until it is paid. Moreover, the check is made payable at the place where the debtor resides, whereas in most business transactions the money is wanted at the place where the person who has delivered the goods has his business. In addition, the cost of collecting and other expenses render this means of payment not altogether popular.

The Reichsbank has also placed its machinery at the service of the system of payment by means of checks, offering to collect them at all its branches. Its charges, however, are such as rather to throw an obstacle in the way of the extension of this method of payment. The charge in the case of its own "white checks" sent in through the post is one-fiftieth of 1 per cent, the minimum being 30 pfennigs for each check. Its white checks presented for payment at any branch, when drawn on another branch, pay a like amount. Checks on private banks not members of a clearing house pay one-

tenth of 1 per cent if they come from the same bank district, the minimum charge being 50 pfennigs, and as much as one-fifth of 1 per cent if they come from a different district (minimum charge likewise, 50 pfennigs). These fees are virtually prohibitive, the small checks especially, on account of the minimum charge, not being able to stand them. To add to this, six or seven days may elapse before one gets possession of the amount of the check. Suppose I hand in at Bruchsal a check on Bonn for 25 marks. The subbranch (*Nebenstelle*) at Bruchsal sends the check to the main branch (*Reichsbankstelle*) to which it is subordinated, which is at Karlsruhe. The latter transmits it to Berlin, whither all the bills and checks that come in each day are mailed. When these have been sorted out the check is mailed to the main branch at Cologne, and thence it is forwarded to the subbranch at Bonn. The latter collects the check and advises Bruchsal of the fact. It is not until then that I get my cash, with the loss of about a week's interest and a deduction of 50 pfennigs. In the case of larger checks (the line appears to be drawn at 3,000 marks) the instrument is sent direct to the place where it is payable. When a check is presented through the Reichsbank at a banking establishment connected with one of the so-called "great banks," the operation is likewise a slow one on account of the necessity of making inquiry regarding the soundness of the check. As a regular thing, there is an interval of a week in the case of small checks before the cash can be obtained at the Reichsbank or the sum transferred by giro to an account current.

On the occasion of the renewal of the bank laws the question was discussed as to whether the Reichsbank ought not to undertake the business of buying up checks. The terms contemplated are such, however, that this branch of business, as it would have to be carried on by the bank, could certainly not attain to any importance. For a sum equivalent to five days' interest was to be deducted from the amount of the check, and checks were to be bought only from persons having an account current in the Reichsbank. But the Reichsbank has only 24,000 such customers, and among them there are thousands of private individuals and officials who would not count for anything in this matter of the purchase of checks. Large manufacturing and commercial houses would likewise contribute nothing to this business, as they can dispose of their checks to greater advantage in some other way than by turning them over to the Reichsbank on its unaccommodating terms. This would be still more true of the banks.

Having discussed the arrangements which the banks have instituted for the promotion of the method of payment by check, we must say a word regarding the means which the banks offer the public for availing itself of the facilities thus afforded. The foundation for the whole apparatus is furnished by the deposit business carried on by the banks. The extraordinary development of the use of checks which is such a prominent feature of the monetary intercourse in England is bound up with a system of banking that is at bottom a deposit business.

The banks open for everyone who desires it, free of expense, a checking, or deposit, account. A minimum balance, as a general thing, is not required and interest is allowed on the deposits. The "great banks" of Berlin allow a uniform rate of interest, which is fixed from time to time by the so-called "*Stempelvereinigung*," an association to which they all belong. In July, 1909, when the bank rate of discount was 3½ per cent, interest was allowed on deposit, or checking, accounts at the rate of 1½ per cent.

The depositor is provided with a check book. When a check is made out payable to a person residing in the same city with the drawer no letter of advice is required. If the payee is in a different city a letter of advice is usually sent. In this case the account of the depositor is charged with the amount immediately on receipt of the notification. The time that elapses till the check is paid enables the bank to make a slight profit. As a minimum balance is not required, or if it is required according to the letter of the agreement, the clause regarding it is often not enforced; and as, moreover, there is no charge for carrying on the account, the profit for the bank from such accounts, especially when the transactions of the individual depositors are very numerous, is not a large one, and often, indeed, the net result is a loss. The management of the Deutsche Bank asserted not long ago that there was no profit in the deposit business on account of the great cost of conducting it. This declaration has, however, to be taken with some allowance, as the Deutsche Bank did not state

just how it squared off its accounts with its branch deposit establishments, and as it is not easy to calculate the indirect profit derived from an immense number of depositors in connection with the flotation of securities and the like. The number of accounts in this, the largest of the German banks (in the main, checking and deposit accounts), amounted at the close of 1907 to 212,214, of which 158,657 belonged to the main office and the branch offices in Berlin. The total deposits amounted to 476,000,000 marks. In spite of the fact that the so-called "great banks" offer every inducement for the use of checks, the public has nevertheless not yet learned to use them on an adequate scale with reference to the desirability of avoiding the use of cash in payments. Although the check does not play the same rôle in the upper strata of business as in England and the United States, for the reason that in this country the system of payments by means of transfers (the giro system) has taken its place, there are great possibilities in the way of the more extended use of the instrument in the more modest spheres of business. The check can not, however, become thoroughly popularized until the custom of having a bank account becomes universal. Not until then shall we be enabled, by reducing the amount of actual money required in effecting payments, to dispense with millions in hard cash every year (the possible annual saving being estimated by Apt [a] at 800,000,000 marks) and place a much larger amount of capital at the disposal of industry. It would mean that individuals

[a] "*Scheckgesetz*," Berlin, 1908.

would be much more in the habit than hitherto of intrusting the keeping of their cash accounts to the hands of those especially qualified to manage such business, just as is done in England, as a matter of course, by merchants, manufacturers, and private persons. If, however, the holder of a check has no bank account and simply goes and has it cashed, then the check, which has only changed hands once, has not discharged its actual function. All that has taken place is that the holder of the check has obtained the amount somewhat later than would have been the case if the drawer had paid it in cash. But if the check had passed through several hands—an operation of which the method of giro transfers does not admit—it would have rendered a corresponding number of cash payments superfluous. As yet this is a rare occurrence with us relatively to the number of times that checks pass only once from one hand to another. Persons who have no bank account are not likely to have a sufficient volume of monetary transactions to be able to dispose of a check (which is made out for a definite amount and is indivisible) quickly enough with reference to its presentation for payment before the expiration of the ten days' limit. Moreover, a check is not intended to be currency; it is supposed to be merely an instrument for effecting a payment. It would lose its character if it were to serve as currency.

Our public, as we have already said, does not sufficiently appreciate the advantage of this method of monetary settlement without the use of cash, else, with the inducements offered by our great banks and the vast number of

their customers, the use of checks in this country would be much more extensive than it is. But that in the middle and lower business strata the check can be advantageously employed is evidenced by the showing made by the Oldenburgische Landesbank and the Oldenburgische Spar- und Leihbank (savings and loan bank), which for a number of years past have been spreading the use of checks among their customers, doing this with success in a field restricted both territorially and as regards the scale on which business is conducted. The same may be said of the Mecklenburgische Hypotheken- und Wechselbank (mortgage and discount bank).

It is unfortunately impossible to furnish statistics of the volume of check transactions of the German banks. Out of 464 inquiries addressed to joint stock banks, answers were returned in the case of little more than one-third. These came almost exclusively from provincial banks, not a single one of the so-called "great banks" of Berlin being represented.

In our monetary intercourse with foreign countries there is as yet hardly anything in the way of a mechanism of payments by means of transfers from one account to another (giro system). Here the check is superior to the giro and is consequently largely utilized, especially by banks, manufacturers, and merchants. It is cheaper to send a check than a registered letter or a postal order, and for this reason the check is more popular. There was formerly an obstacle to the very extensive use of modern sight paper in international payments in the lack of check quotations at the Berlin Bourse. Checks

on Paris and London, for example, could often only be procured at a price considerably above what would correspond to the quotations for bills at eight days' sight. In like manner the sale of checks would at times bring a smaller return than the figure calculated from bill quotations. This evil led to the installation of regular check quotations at the Berlin Bourse. While foreign bills are quoted only three times a week (there are only three so-called "bill days" at the exchange each week), the rate of Paris and London exchange for sight paper (that is to say, the rate governing checks) is quoted daily. This means a considerable step in advance in the matter of international payments.

(*a*) THE USE OF CHECKS IN CONNECTION WITH THE PUBLIC TREASURIES.[a]

In the matter of checks government authorities have to play the rôle both of drawer and payee. Although there has been some improvement in recent years in the methods of payment employed by the state and communal authorities, any kind of payment other than that in which actual cash is the vehicle is still regarded in the light of a concession. The present generation of cashiers and paymasters will have to be superseded by officials of a very different way of thinking before a gradual modernization of the antiquated monetary intercourse of our public treasuries can be effected. Throughout almost the whole of Germany the salaries of officials are paid directly from the public treasuries in cash. An immense sum of

[a] See S. Buff: *Der gegenwärtige Stand und die Zukunft des Scheckverkehrs in Deutschland*, 1907.

money has consequently to be kept in readiness at these offices. It has been calculated[a] that in the salaries of federal and Prussian officials alone there is expended annually as much as 888,000,000 marks, which means to say that every three months (federal and Prussian employees are paid every quarter) 222,000,000 marks must be in readiness at the various government disbursing offices three days before the calendar quarter day. Quite recently a step in advance has been made. The imperial treasury transfers in a lump sum to the Berlin banks (nearly all the "great banks" taking part in the operation) the amount of the salaries of the federal officials as determined from the accounts handed in to the treasury by the various offices. The imperial offices transmit to the respective banks their salary lists, from which the banks can ascertain which salaries are to be paid by placing the amount to the account current of the official. This system has been adopted on a correspondingly larger scale by the Prussian treasury, which is instructed by the minister of finance to transfer to the banks by means of the Reichsbank giro the quarterly amounts of the salaries of the officials. Since October 1, 1908, the Saxon ministry has likewise employed this method of payment, by which a large amount of cash may be dispensed with at the quarter days. If government employees were generally accustomed to having bank accounts, immense sums might in this manner find their way to the main offices of the great banks and to the Reichsbank. Our savings institutions would be especially fitted to do good service

[a] See Apt, *Scheckgesetz*, 1909.

in this direction if they had a system by which government officials would be permitted to have checking accounts.

In the case of other kinds of payments also, as in the payment of taxes, sounder notions are beginning to prevail. The fact remains, however, that although as a general thing checks are accepted in Germany for payment of taxes, the rule is still to pay in cash. In Prussia, in the case of taxes that are due and of credits in connection with customs duties, only checks drawn on the Seehandlung and the Preussische Zentralgenossenschaftskasse (both state institutions) are accepted, to the exclusion of the Reichsbank and other banks. Payments made by one public treasury to another, in so far as the method of payment is not prescribed by the main treasury, are, with scarcely any exception, effected by means of giro transfers at the Reichsbank. There is great diversity with respect to these matters in the various states of the Empire. Some cities make payment by check only on request or when their supply of cash happens to be exhausted. Checks are now, as a general thing, taken in payment by the communes. Many of the cities have recently opened an account at the Reichsbank. In Bavaria the authorities make it a point to accommodate the public, and no objection whatever is made to checks provided they are drawn on reliable houses. In April, 1909, there were only 41 cities in which payments into the municipal treasury might be made by means of checks. In nearly every case it is provided that the check has to be drawn on a local banking house. In most cities the use of checks in connection with public business is still very limited. It may be mentioned in this

connection that the city of Berlin is a member of the Kassenverein.

Through the intermediary of the commercial organizations an agreement was effected by which all the communal treasuries of Greater Berlin (Berlin and the adjacent communes, with a total population of about 3,000,000) have the benefit of a uniform system of payments by means of giro transfers and checks, which is of great importance to the city. The main features are as follows: Persons to whom money is due from the public treasury, if it appears from their bill or otherwise that they have a bank account, in the absence of an explicit request for cash, are paid with checks as soon as the voucher is received. The check is made out in favor of the bank account of the recipient, and as a rule it has the words "*Nur zur Verrechnung*" ("for account only") written across it. Persons not known to have a bank account may likewise demand payment by check. Persons having to make payments into the public treasury may in like manner make use of checks. Only checks drawn on a Berlin banking house will be accepted, and they must bear the words "*Nur zur Verrechnung.*" Indorsed checks will not be accepted. Checks may be presented in payment at the offices themselves, as well as given to the officials charged with collecting taxes and other dues. The treasuries are obliged to transmit the checks they receive at once to the central municipal treasury, which has to proceed without delay to have them collected, and, in case of any trouble with a check, must give detailed information about the matter to the office whence it was forwarded.

If within three week days from the date of the transmission of the check no unfavorable report concerning it has been received, it is to be considered paid, and a receipt may be given for the amount if requested. Instead of making out a check, everyone is at liberty, as heretofore, to pay in cash. It is permitted also to ask for payment in cash. The taxpayer likewise retains the privilege of having the amount of the tax paid by a Berlin banking house through the intermediary of the Kassenverein. Gas, water, and sewerage bills may be paid in this way as well as taxes.

(*b*) GIRO UNION OF THE SAXON COMMUNES.

The Kingdom of Saxony possesses an interesting institution, among whose functions is that of promoting payments without the use of cash. This is the so-called "giro union" (Giroverband) of the communes, which has only recently come into existence. Organized in January, 1909, it comprised in May a membership of 150, consisting of communes having savings banks, for the most part small communes without any giro facilities. Each commune has instituted a sort of clearing establishment, enabling the citizens to make payments into the communal treasury or to effect settlements with one another by the method of transfers to, and deductions from, accounts current. The communal treasuries, together with five branch offices of the Sächsische Bank, serve as giro offices. The transactions between the communes are cleared at the main office of the Sächsische Bank in Dresden. Through this institution connection is established with the giro system of the Reichsbank. In the giro business of the union there are no fees or other charges, the

work done by it being looked upon in the light of a public service. The minimum balance required is only 10 marks. This very small minimum balance is in accordance with the task which the union has set for itself—that of installing a giro system for the lower stratum of the business community and linking this system to the giro system of the Reichsbank. It is proposed in this way to afford to persons carrying on an independent business on a small scale, with whom banks and bankers do not find it sufficiently profitable to deal, the advantages of a mechanism for effecting payments without the use of cash. It is worth mentioning that the funds that accumulate in the hands of the union in the course of its business are placed at the disposal of its customers at a low rate of interest.

IV.

DIRECTORS' FEES IN GERMANY.

By Dr. Carl Melchior.

The executive organs of corporations established under German law are the manager or the board of managers (*Vorstand*) and the board of supervision (*Aufsichtsrath*) besides the general stockholders' meeting. The board of supervision is appointed by the general stockholders' meeting, the managers by the board of supervision or by the general meeting, the managers of important corporations being, as a rule, appointed by the board of supervision.

The managers represent the corporation in and out of court in dealings with the public, and their right to represent the company before third parties is unrestricted, but in most cases they are bound to follow the board's instructions. Hence the principle of German law, that the board of supervision, being the superior organ, controls the managers' conduct of the corporation's affairs, while the managers themselves are intrusted with the actual duties of management. This division of functions precludes a member of the board of managers or a clerk of the corporation from being a member of the board of supervision.

The law is not very specific concerning the remuneration of the managers and staff employed by corporations. The only legal provision dealing with the subject

refers to the managers' participations in the annual profits and will be found in paragraph 237 of the Commercial Code of the 10th of May, 1897, which reads as follows:

"The participations of managers who are entitled to a share of the annual profits shall be calculated on the net profits which remain after the appropriations for depreciation and reserve funds shall have been made."

It must be borne in mind that this paragraph refers only to members of the board of managers and not to clerks in the employ of corporations, and to participations in the profits and not to fixed bonuses and other remunerations. It is therefore left entirely to the discretion of corporations what remunerations they shall allot to their managers besides the participations in the profits. So far as the clerks are concerned, the corporations have absolutely a free hand, even in the matter of bonuses. It will be observed that paragraph 237 refers to participations in the profits, without describing them as the net profits, thus establishing the rule that, no matter whether the managers have been promised a share of the gross profits, only the net profits which remain after deductions for reserve funds and depreciation shall be the basis for calculating the managers' share of profits. The provisions of paragraph 237 are obligatory and can not be changed by corporate statute. The bonuses paid to the managers and clerks are often not disclosed in the reports of corporations. The quota of profits which members of the board of managers are to receive is generally settled by contract, though sometimes by corporate statute. The bonuses to the clerks are without exception fixed by contract.

In the statutes of older corporations the bonuses to the members of the board of supervision are generally established in such a way that these members are allowed a participation in the net profits after dividends of 4, 5, or 6 per cent have been paid to the shareholders; of the remaining net profits the members of the board of supervision generally receive from 4 to 10 per cent. Until the Commercial Code was amended on the 10th of May, 1897 (paragraph 245, section 1), no legal regulations existed as to what share of the net profits should be turned over to the members of the board of supervision. Sections 2 and 3 of this paragraph 245, which were already contained in the old Commercial Code, may be quoted here, too, as they deal also with remunerations of board members. Paragraph 245 reads now as follows:

"SECTION 1. Whenever the members of the board of supervision are compensated for their services by a participation in the annual profits, their share must be calculated on the net profits which remain after all appropriations for depreciation and reserve funds have been made and after a sum, representing at least 4 per cent on the paid-up capital, has been set aside for distribution among stockholders.

"SECTION 2. Whenever the statutes of a corporation contain any provision as to the remuneration to the members of the board of supervision, the general meeting may by simple majority of votes change the statute with a view to reducing the amount of such remuneration.

"SECTION 3. The members of the first board of supervision shall not receive any compensation for their services except by resolution of the general meeting. This reso-

lution can only be taken in a general meeting convened upon the date when the term of office of the first board of supervision expires."

The regulations of paragraph 245 are as compulsory as those of paragraph 237, and for that reason they can not be changed by corporate statute. The range of section 1, which provides that the board of supervision shall be entitled to a share in the profits only after deductions for reserve and depreciation have been made and dividends of not less than 4 per cent been paid, is not far reaching enough for the reason that, like paragraph 237, it refers only to participation in the profits and disregards altogether fixed bonuses. We have at present no law dealing with and regulating the amount of such fixed bonuses. The fact that the law is silent on this point is of considerable practical importance. As a rule the statutes of younger corporations, particularly those which have been established since the Commercial Code was amended, provide fixed bonuses for the members of the board of supervision in addition to a participation in the profits which in one way or another is generally reserved besides. To quote one specific instance, the statutes of the youngest and at the same time most powerful industrial corporation in Germany, the "Friedrich Krupp Corporation," stipulate that members of the board of supervision shall receive a remuneration of 4 per cent of the surplus which remains after appropriations for depreciation and reserve funds and 4 per cent dividend on the capital stock have been set aside, but no member shall receive less than 15,000 marks and not more than 30,000 marks, and the chairman

of the board not less than 30,000 marks and not more than 60,000 marks.

An important legal distinction exists between members of the board of supervision who receive only a participation in the profits, and members who, besides this participation or exclusively, are entitled to a fixed bonus, in that the former may resign their position at any time, whilst the latter can only do so for important reasons. This rule is not stated expressly in the Commercial Code, but is in accordance with the prevailing interpretation of the general principles of the Civil Code, which does not permit an individual who is permanently engaged at a fixed remuneration and holds a responsible position to resign unless important reasons are given. However, the right to resign at any time may be reserved by statute for members of the board of supervision who receive fixed bonuses. Many of the more recent statutes of corporations do contain this provision.

The profit participations are generally distributed in equal shares among the members of the board of supervision. The chairman, however, often receives two shares. An extra remuneration is sometimes given to members who have been intrusted with functions requiring special knowledge or extra time.

Besides the stock corporations, "companies with partnerships limited by shares" are also compelled by law to have a board of supervision. Such a company with partnerships limited by shares exists if at least one stockholder (partner) is personally liable to an unlimited extent for all the obligations of the company, whilst the other stockholders (partners) are liable only to the extent of their

subscriptions to the capital stock. This form of incorporation is very much less frequent than that of the stock corporation, although some of the big banks are organized as companies with partnerships limited by shares. Among the latter are the Disconto Gesellschaft and Berliner Handelsgesellschaft in Berlin and the Norddeutsche Bank in Hamburg. The board of supervision of companies with partnerships limited by shares is, in the matter of remunerations, subject to the provisions ruling the board of supervision of stock companies (paragraph 320, section 3, of the Commercial Code).

"Coöperative societies" are likewise compelled to maintain a board of supervision; they are generally of little more than local or rural importance. According to paragraph 36, section 2, of the law ruling the coöperative societies, the members of the board of supervision of these societies are not permitted to receive any share of the profits.

"Limited liability companies" are not compelled to have a board of supervision. This form of incorporation is steadily gaining in importance among financial and industrial interests. They differ from stock corporations in that they are organized on a more simple principle, while on the other hand they require a formal transfer for the cession of capital shares. They are subject to the abovementioned provisions of the Commercial Code with respect to remunerations to their board members, but while stock corporations are compelled to fulfill the legal requirements, limited liability companies can alter the legal provisions by statute. The importance of the latter class of

companies being still comparatively small, we shall now deal only with stock corporations and companies with partnerships limited by shares.

The statutes drawn up in former years had been based on the then prevailing comparatively small volume of trade and secured but moderate incomes for the board members. But while these fees have remained unchanged as to percentage, Germany's trade has expanded so rapidly and the prosperity of many of the German corporations has increased so steadily that the statutory fees paid to the board members have grown into large amounts during recent years. The annual reports of the large corporations as a rule indicate the sums which went to the board members as their share in the profits, the exact figures being given, for instance, in the annual reports of all the big banks. Some industrial corporations, however, prefer—quite wrongly—not to publish the amounts paid by them to their board members.

The following table of the big German bank, industrial, steamship, and insurance companies also contains those corporations which do not render an account of such payments. Railroad companies are not included in the table, as railways of any importance are no longer in the hands of private owners in Germany. To avoid misapprehension, attention is called to the fact that the statements with respect to the share in the profits allotted to the members of the boards of supervision and the managers give no adequate idea of the actual amounts received by them, for the reason that many of the board members and all the managers received besides fixed remunerations, and that

the managers furthermore often derive a separate income from their directorships in other corporations.

As will be seen from the foregoing table, the annual fees of the members of the boards of supervision of the great corporations fluctuate between 15,000 marks and 35,000 marks per annum, but it should be borne in mind that the business years referred to have been very unfavorable ones for industrial and steamship concerns and that the board members of some of the corporations had been drawing considerably higher emoluments in past years of prosperity. The board members of the Hamburg-American Line, for instance, received a few years ago about 75,000 marks each, while the share of the president of the board amounted to about 150,000 marks.

To determine whether the German system of distributing profit participations is efficient or not, one should not be content with the discovery of abuses which have come to light here and there—the best system like the best law is liable to miscarry sometimes—but one should go straight to the point whether our system in its typical working is satisfactory. Before the question can be answered whether the fees of the board members are as a rule an adequate remuneration for their services, it is necessary to consider the class from which the members of the boards of supervision are selected. The boards of supervision of large corporations, which naturally are the only ones paying large rewards, are composed as a rule of the following elements:

1. The leading men of allied banks, banking firms, and industrial establishments.

Name of company.	Period ending.	Share capital.	Reserves.	Net profits.	Dividends.	Statutory provisions concerning distribution of bonuses to members of the board of supervision, managers, and clerks.	Number of board members.	Bonuses to—	
								Board members.	Managers and clerks.
BANKS.									
Deutsche Bank	Dec. 31, 1907	*Marks.* 200,000,000	*Marks.* 100,000,000.00	*Marks.* 30,319,176.64	*Per cent.* 12	5 per cent of net profits to ordinary reserve fund (is exceeded); 6 per cent dividend and further reserves and other expenses; of the remaining profits, 7 per cent to the board members (besides 3 local board members).	27	*Marks.* 903,225.81	[illegible]
Dresdner Bank	do	180,000,000	51,500,000.00	19,505,929.30	7	5 per cent of the net profits to ordinary reserve fund (is exceeded); 4 per cent dividend; of the remainder, 7½ per cent to the board members (besides 10 local board members).	35	713,568.00	2,254,564
Disconto-Gesellschaft, C. G. a. A	do	170,000,000	57,592,611.00	18,958,981.16	9	5 to 10 per cent of the net profits to ordinary reserve fund (is exceeded) and special reserves; 4 per cent dividend; of the remainder, 16 per cent to the personally liable partners and 4 per cent to the board members.	29	447,368.42	(a)
Bank für Handel und Industrie (Darmstädter Bank).	do	154,000,000	29,500,000.00	9,800,580.46	6	Minimum of 5 per cent of the net profits to ordinary reserve fund (reached), extraordinary reserves; 4 per cent dividend; of the remainder, 7 per cent to the board members.	19	215,600.00	[illegible]
A. Schaaffhausenscher Bankverein	do	145,000,000	34,156,370.00	14,566,749.29	7	Minimum of 5 per cent of the net profits to ordinary reserve fund (reached); extraordinary reserves and 4 per cent dividend; of the remainder, bonuses to managers as fixed by contract and 7½ per cent to board members (besides 7 local board members).	28	432,404.83	[illegible]
Berliner Handels-Gesellschaft, C. G. a. A	do	100,000,000	30,000,000.00	11,505,910.70	9	4 per cent dividend of the net profits; 5 per cent to ordinary reserves (is exceeded); contractual participation in profits of the personally liable partners up to 15 per cent; of the remainder, 6 per cent to the board members.	23	407,327.90	(b)
INDUSTRIAL CORPORATIONS.									
Friedr. Krupp, A.-G	June 30, 1908	180,000,000	14,677,908.00	18,589,051.99	8	5 per cent of the net profits to ordinary reserve fund; 4 per cent dividend; special reserves, etc.; of the remainder, 4 per cent to the board members, minimum 15,000 marks, maximum 30,000 marks for each member, twice that amount to the chairman of the board.	6	210,000.00	[illegible]
Gelsenkirchner Bergwerks, A.-G	Dec. 31, 1907	130,000,000	28,318,610.00	17,272,368.42	12	5 per cent of the net profits to ordinary reserves (is reached); special reserves; 4 per cent dividend; of the remainder, 5 per cent to board members.	35	547,368.42	[illegible]
Phoenix, A. G., für Bergbau and Hüttenbetrieb	June 30, 1908	100,000,000	16,138,238.00	14,989,367.84	11	5 per cent of the net profits to ordinary reserves (reached); special reserves; 4 per cent dividend; of the remainder, depreciations, bonuses to managers, and 6 per cent to the board of supervision.	35	(c)	[illegible]
Harpener Bergbau, A. G	do	80,000,000	28,903,624.00	8,685,607.07	11	5 per cent of net profits to ordinary reserve fund (is exceeded); special reserves; 4 per cent dividend; of the remainder, 6 per cent to the board of supervision.	11	322,852.75	[illegible]
Union, A. G., für Bergbau Eisen and Stahl Industrie.	do	42,000,000	2,554,284.00	1,950,369.30	(d)	5 per cent of the net profits to ordinary reserves; up to and over 5 per cent to special reserve fund; 5 per cent to preferred and 4 per cent to common stock; of the remainder, 5 per cent to board members, besides 1,500 marks fixed fee for each member.	15	Nothing.	[illegible]
Hohenlohe Werke, A. G	Mar. 31, 1908	40,000,000	4,000,000.00	3,846,625.69	9	5 per cent of the net profits to ordinary reserve fund; 4 per cent dividends; 5 per cent to board of supervision (further remuneration permissible).	8	100,251.00	[illegible]
Vereinigte Königs and Laurahütte	June 30, 1908	36,000,000	9,340,677.15	4,105,711.80	10	5 per cent of the net profits to ordinary reserve fund (is reached); then, after appropriations for depreciations and reserve fund up to 5 per cent, to managers and clerks; of the remainder, 5 per cent to board of supervision.	11	126,559	(e)
Badische Anilin und Soda-Fabrik	Dec. 31, 1907	36,000,000	21,000,000.00	13,157,589.73	30	5 per cent of the net profits, after appropriations, to ordinary reserve fund (is reached); special reserve; 4 per cent dividend; contractual dividend to managers and clerks; 4 per cent to board of supervision.	10	[illegible]	(f)
Farbwerke vorm. Meister Lucius and Brüning	do	36,000,000	14,697,937.22	11,098,770.59	30	5 per cent of the net profits to ordinary reserve fund (is reached); special appropriations and special reserve funds; contractual bonuses to managers; 4 per cent preferred dividend; of the remainder, 5 per cent to the board of supervision.	9	1,830,872.15	[illegible]

a To personally liable partners, 1,789,473.69 marks.
b To personally liable board members, 857,085.90 marks; to clerks, 457,560 marks.
c Board of supervision and managers, 1,392,067.59 marks.
d 5 per cent preferred; 2 per cent common.
e To managers and clerks, 199,536.59 marks.
f Board of supervision, managers, and clerks, 1,355,672.01 marks.

Name of company.	Period ending.	Share capital.	Reserves.	Net profits.	Dividends.	Statutory provisions concerning distribution of bonuses to members of the board of supervision, managers, and clerks.	Number of board members.	Bonuses to board members.	Bonuses to managers and clerks.
ELECTRICAL COMPANIES.		*Marks.*	*Marks.*	*Marks.*	*Per cent.*				
Allgemeine Electricitäts Gesellschaft	June 30, 1908	100,000,000	47,732,744.47	15,931,211.93	12	5 per cent of the net profits to ordinary reserve fund (is exceeded); further reserve appropriations; 4 per cent dividend, of the remainder, 5 per cent to the board of supervision.	22	[illegible]	[illegible]
Siemens and Halske, A. G.	July 31, 1908	54,500,000	11,839,909.29	9,688,263.62	11	5 per cent of the net profits to ordinary reserve fund (is exceeded); 5 per cent dividend; of the remainder, 7 per cent to the board members, 50,000 marks minimum.	11	246,960 91	----------
Electricitäts, A.-G., vorm. Schuckert & Co.	July 31, 1908	50,000,000	871,201.33	3,882,424.62	5	5 per cent of the net profits to ordinary reserve fund, 4 per cent dividend after all appropriations and special reserve fund; 5 per cent to the board of supervision; contractual bonuses to managers and clerks.	13	38,543.65	----------
TRANSPORTATION COMPANIES.									
Grosse Berliner Strassenbahn	Dec. 31, 1907	100,082,400	9,338,879.06	9,890,009.23	8	5 per cent of the net profits to ordinary reserve fund; 5 per cent bonus to managers and clerks; 4 per cent dividend; of the remainder 5 per cent to the board of supervision.	15	243,862 75	493,363 95
STEAMSHIP COMPANIES.									
Hamburg-Amerika Linie	Dec. 31, 1907	125,000,000	16,753,155.00	7,438,860.10	6	5 per cent of net profits after appropriations for reserve renewals and reserve insurance fund to ordinary reserve fund (is reached); 4 per cent dividend, of the remainder 1 per cent for each member and 2 per cent for the chairman of the board.	6	88,860 10	----------
Norddeutscher Lloyd	do	125,000,000	8,128,642.70	6,034,316.40	4½	5 per cent of the net profits to ordinary reserve fund, 4 per cent dividend, 6 per cent of the remainder to the board of supervision	15	41,042 55	----------
Deutsche Dampfschiffahrts Gesellschaft Hansa	do	25,000,000	3,700,000.00	2,132,247.72	8	5 per cent of the net profits to ordinary reserve fund 4 per cent dividend, 10 per cent of the remainder to the board of supervision.	[illegible]	[illegible]	[illegible]
INSURANCE COMPANIES.									
Aachener and Münchener Feuer-Vers.-Gesellschaft.	Dec. 31, 1907	9,000,000	6,400,000.00	3,315,246.25	7[illegible]	Statutory reserve fund (is reached)—Of the net profits after appropriations and 4 per cent dividend, 3⅓ per cent to board of supervision	10	(a)	(a)
Victoria zu Berlin, Allg. Vers., A.-G. (principally life insurance).	do	(b)	(c)	28,220,840.22	53	After appropriations for reserve and 4 per cent dividend, 5 per cent of the net profits to the board of supervision.	7	150,000 00	474,626 17
Germania, Lebens-Vers., A.-G. zu Stettin	do	(d)	47,050,030.25	7,635,330.01	16⅔	No fees to the board of supervision; bonus to managers not exceeding 30 000 marks.	6	----------	30,000.00

[a] Total of all bonuses, 215,270.50 marks. [b] Life policies written, 1,506,475,245 marks. [c] Premiums and interest income, 132,064,928 marks. [d] Life policies written, 780,112,770 marks; annuities 2,964,704.61 marks.

2. Officials of concerns which have been absorbed by another corporation, notably former heads of private banking firms or commercial establishments.

3. Former members of the board of managers who wish to retire from the active conduct of affairs on account of age or poor health, whose knowledge and experience, however, acquired in the service of the corporation, the latter desires to retain.

4. Prominent men with professional knowledge (legal or technical) or general commercial or social influence.

It is admitted that the work of board members coming from allied concerns is often not very extensive. But it would be wrong to underestimate their services, viz, the giving of expert advice; the opening up of new business connections; the granting of financial protection; the maintaining of continued personal coöperation between the two concerns thus brought together. Indeed the mere evidence of such friendly accord between two corporations is sometimes of sufficient value to make quite high remunerations seem of comparatively small importance in view of the advantages derived from such a connection. This also applies to board members of general prominence. As for board members taken from their leading positions in smaller concerns when absorbed by a larger corporation, it is in many cases expressly agreed before the absorption is finally consummated that the chief officers of the absorbed concerns be appointed members of the board of supervision in the new corporation, which secures for them a permanent source of income over and above the sums settled on them at that time and, moreover, enables them to continue their

accustomed activities. On the other hand it is of the greatest advantage for the absorbing corporation to possess in its administration a man who has an accurate knowledge of the conditions, the customers, etc., of the absorbed concern, and who is thus able better than any one else to render valuable services. Members of this description will not be satisfied with trifling remuneration. A similar state of things prevails in the case of former members of the board of managers, who, by leaving the management in order to join the board of supervision, suffer, as a rule, a considerable reduction of their income, and can not, therefore, be cut off with a small bonus. Quite apart from the fact that in such cases paltry fees are out of the question, it must be considered that capable men do not grow like weeds and can not be retained for small salaries, the less so as the German law relating to the liability of members of a board of supervision is rather severe. The German stock-corporation laws were all enacted—a few subsequent amendments excepted—before Germany had begun to start on her great commercial and industrial progress. The law (paragraph 246, Commercial Code) still shows traces of certain patriarchal ideas according to which the members of the board of supervision are compelled to supervise all the details of business and methods of management and keep well informed on the affairs of their corporation. Such complete knowledge may have been possible while German corporations were in their infancy. In the gigantic and intricate economic enterprises into which the leading corporations have developed within the past twenty years, an all-controlling activity has become

an impossibility, and the boards of supervision of the great corporations have gradually assumed the character of a body which in vital questions acts in an advisory capacity and, through the personal influence of its members, promotes valuable business connections with other important concerns, while the controlling or auditing work proper lies in the hands of public accountants and auditing companies. It follows that the members of the board of supervision of the great corporations are in the dangerous position of being unable, in fact, to perform the obligations put upon them by the present law. Therefore, they are liable to be sued for criminal, often merely neglectful, actions on the part of the employees of the corporation, as the law (paragraph 249, Commercial Code) holds them bound to exercise the caution which is expected of a careful business man. The fact that liability suits against members of boards of supervision have not been handled in any large numbers by the German courts is due less to the provisions of the law than to the fact that the members of a board of supervision whose corporation has suffered damage through willful or accidental negligence of its officers, frequently make up the deficiency thus incurred, sometimes without even waiting to have their liability conclusively proven. Through such sacrifices and efforts to conceal such occurrences from the public, many a board of supervision has rendered invaluable services to its corporation. This circumstance and the extent of the risk incurred by them must be kept in mind in criticising the large profit participations. Men of high standing would hardly be still willing to undertake the burden and risk of a directorship if their incomes

were curtailed to a considerable extent. This would entail evil consequences of a twofold kind. On the one hand, vacancies on the board of a corporation would have to be filled by men of lesser attainments and smaller means, who would not mind running the risks connected with such a position. With such directors at the head of affairs corporations would soon learn by experience that insignificant men who will fill a leading position for a smaller remuneration prove far more expensive in the end than able men who insist on large rewards for their services. On the other hand, it is likely that in many cases the control of the boards of supervision would practically remain unchanged in that the present members would simply resign from the board officially and put dummies in their places. Now it goes without saying that nothing is more injurious to the development of a corporation than to have men who, with their good name and means, were responsible for a proper administration, retire and pull the wires behind the scenes, thus shifting onto their creatures the legal and moral responsibility toward the public. Wherever such conditions exist they tend to dull the sense of responsibility in the real leaders.

It can not be denied that in certain respects the present conditions are in need of improvement. No man should accept appointments as a director to such an extent as to render it impossible for him even to exercise a general supervision of the affairs of corporations in whose conduct he has a hand. The acceptance, therefore, of twenty to forty directorships, which is not at all unusual in Germany, should be discouraged except in the case of men whose attainments are of such caliber as to ena-

ble them to be useful to so many corporations at the same time. Really gifted men will, to be sure, through the mere fact that they are board members of a large number of corporations, be especially useful to each one of them, in that they can divert their great experience and extensive personal connections to the benefit of these corporations. It is to be regretted, however, that this ideal state can not always be attained; vacancies in the board—as is the case everywhere else with institutions—are often filled through the agency of "pull" or kinship. Such evils, however, can not be cured by law, but call for a gradual improvement of the methods and a sharpening of the sense of responsibility on the part of the individuals at the head of commercial enterprises. Something would be gained if the fees for the members of special committees within the board were differentiated to a certain extent and a distinction made between members of essentially decorative significance and the really useful directors. It would also be advisable to fix a maximum limit for the profit participations so as not to allow them to increase indefinitely in exceptionally favorable years. The above-mentioned rule of the Friedr. Krupp Company serves as a good example. The amounts paid to directors should be made public and be set forth clearly in the annual reports. In conclusion it may be mentioned that the taxes imposed by the Empire on directors' fees and by most of the federal states upon personal income serve as a corrective against excessive remunerations.

The German system of providing proper or even liberal compensation for directors possesses also a distinct moral value. If the present system were to be abolished or the

compensations materially reduced, the danger might arise, apart from the other disadvantages already mentioned, that the members of the board of supervision would attempt to profit by their position as directors in some other manner. This possibility has to be reckoned with as a logical consequence wherever the members of the board of directors receive no compensation or an inadequate one. It will be readily understood that no one would feel inclined, without compensation, or for such an insufficient consideration as, for instance, the pittance of attendance fees, to place at the disposal of a commercial enterprise his knowledge of economic conditions and his energies, and to procure by his labors economic advantages for others, without the promise of a proper reward. Things are different where the members of a board of supervision are properly provided for by an adequate share in the profits and do not have to seek their compensation in incidental spoils. In Germany, therefore, it is considered unfair and unbusinesslike for corporation directors to exploit for their own private gain and benefit the knowledge and information acquired through their official position. There is no doubt that this principle is strictly adhered to by a great number of directors, although it must be admitted with regret that there are leaders of large corporations who are inclined to be rather remiss in that respect. However, the German system deprives such malpractices of the last shred of justification; and business morality, which is becoming increasingly high in Germany, will more and more eliminate such delinquencies.

V.

THE LAND MORTGAGE ASSOCIATIONS (LANDSCHAFTEN).

By Dr. J. Hermes.

[Article from Conrad's *Handwörterbuch*, second edition.]

(*a*) Introduction.

By "*Landschaften*" is understood the public credit institutions resting on private or corporate mortgaging of landed property. The historical Prussian Landschaften, from which the newer, and in some degree differently organized, credit institutions have borrowed the name, are a much lauded creation of Frederick the Great. I say purposely of Frederick the Great, because the plan which the merchant Büring proposed, and which was accepted owing to the shrewdness of the great ruler, would hardly have been realized except by the authority of an absolute government. Only a few decades later a crisis broke over Prussia, which severely tested newly created credit institutions. They may be said to have acquitted themselves splendidly. Indeed, in the most critical times agricultural credit was more solid than that of the State; for the latter came to the East Prussian Landschaften in 1808 and 1809 to raise a part of the military contribution by the issue of mortgages on its forests and domains. Though the results of the Napoleonic wars, together with the agricultural depressions of the twenties, rendered state aid necessary, the Landschaften finally fulfilled all of their

obligations and contributed very greatly to the relief of the necessities that the estates of the eastern provinces, which were most concerned, experienced at that time. But the Landschaften helped also directly in the national uprising of 1813, chiefly the East Prussian Landschaften, in whose assembly hall—which is still standing—the East Prussian provinces, with the General von York, decided upon the organization of the voluntary popular rising of the memorable days of February, 1813.

While this review of the close relation of the history of the Landschaften to that of the whole state seems necessary in order to estimate properly their place in the history of the Prussia, some further observations are desirable in order to give a more definite conception of their nature.

The fundamental idea of the Landschaften consisted in the substitution of the mortgage system (*Pfandbriefsystem*) for the individual mortgage in which creditor and debtor deal directly with each other. The Landschaft is the intermediary between the estate (*Grundbesitz*) which needs credit and the capital which is seeking investment. Its aim is to afford the advantages which the mortgage bond (*Pfandbrief*), payable to bearer, has over the individual mortgage (*Einzelhypothek*), namely, the possibility of realizing on the former at any time, and the added security of the institution and of those joined together under it. In order to do this it evokes a supply of capital which enables it to satisfy the need of the estate for credit under cheaper and more moderate conditions than would be possible otherwise. This ingenious organization of land credit on banking principles, which

was first created in the Landschaften, has been imitated in and out of Germany, but a distinction must be made between mortgage institutions of the most widely differing sorts. From the Landschaften, in the above sense, are to be distinguished not only the mortgage banks and stock companies which carry on mortgage business for their own profit, but also the state or communal land-credit institutions erected in the interest of the estate—agricultural banks (*Landesbanken*), provincial auxiliary banks (*Provincial Hilfskassen*), agricultural credit banks (*Landeskreditkassen*), etc. These institutions, which take the place of the Landschaften in those sections where the latter are wanting or but feebly developed—particularly in the west and middle provinces of Prussia—differ markedly from the Landschaften in that they do not rest upon the independent management of the organized estates, but are operated either by the state, the province, or the communal union on its own account. In this respect they are similar to the mortgage banks. The security which is inherent in the nature of the Landschaft constitution, namely, the treatment of agricultural credit as the most important factor, is thus lacking in the other institutions. The tendency has therefore grown to use the latter institutions as a means for earning an income for the special purposes of the union which has created them, in order to avoid assessments which would otherwise be necessary. A fall in the interest rate is not always followed, as with the Landschaften, by a fall in the mortgage rate charged by the institution on mortgages and bonds (*Pfandbriefe, Schuldverschreibungen*). This group of public credit insti-

tutions is not considered in the following discussion, although they are regarded as similar in the sense of the Prussian law of the 3d of August, 1897, which deals with foreclosure (*Zwangsvollstreckung*) at the request of agricultural credit institutions. (Sec. 1, par. 2, ibid.)

Finally, private mortgage institutions, resting on an association of estates, do not belong to the Landschaften, according to the definition given at the outset. This is all the more to be regretted, since they are similar in their nature to the Landschaften, and many of them have already transformed themselves into public institutions.

(*b*) Review of the Existing Landschaften.

The plan of a general organization of the land-owning noble classes of all the Silesian principalities into a credit union (*Kreditverband*) including the whole province, was authorized by the cabinet order of Frederick the Great of the 29th of August, 1769. The Silesian Landschaft Regulation is dated 9th of July, 1770. It was followed by the creation of the Kur- und Neumarkisches ritterschaftliches Kredit-Institut under the regulation of the 15th of June, 1777; the Pomeranian Landschaft, under that of the 17th of March, 1781; the West Prussian Landschaft, under that of the 19th of April, 1787; the East Prussian Landschaft, under that of the 16th of February, 1788. These five old Landschaften have numerous common characteristics, but also some material differences, as will subsequently appear.

Next came the Landschaft of Posen, erected in 1821, which expired in 1877 after the final redemption of its bonds, its functions being transferred to the new credit

union (*Kreditverein*) founded in 1857, which took the name of "Posener Landschaft" in 1887. For the other Prussian institutions, compare the review elsewhere. Outside of Prussia mention must be made of:

(A) The Kreditverein der mecklenburgischen Ritterschaft of both Grand Duchies, of 1818.

(B) Erbländischer ritterschaftlicher Kreditverein of the Kingdom of Saxony, of 1844.

(C) The ritterschaftlicher Kreditverein in the Duchy of Brunswick, of 1862.

(*c*) Legal Nature and External Organization of the Landschaften—Privileges.

The Landschaften are public corporations under state supervision, which is exercised in Prussia either by a commissioner especially appointed by the King (regularly the lord lieutenant) or, since the royal decree of the 10th of September, 1874, by the Minister for Agriculture, Domains, and Forests. A permanent commissioner has not been appointed, however, for the Silesian and the Hanoverian Landschaften. The Berlin municipal mortgage office is also to be regarded as a public corporation, which is under the direct supervision of a commissioner of the Berlin magistracy.

The boards of directors of the above-mentioned Landschaften have the character of public authorities. (Sec. 24 of the Civil Code of the 21st of July, 1852.) In this capacity they not only introduce and supervise the coercive proceedings against dilatory debtors, according to the statutes (sec. 145, sec. 202, par. 2, of the law of the 13th of July, 1883), and demand legal compulsory

sale, but they have also been given public duties of other kinds, such as the making out of certificates of clear title and the determination of valuations for loans. (Law of the 3d of March, 1850; the 27th of June, 1860; the 15th of July, 1890; the 4th of March, 1867, sec. 24; the 24th of July, 1875, sec. 25.) The officials of the Landschaften are, indirectly, state officials. They are under oath, are subject to the code of discipline, and enjoy the privilege of state officials with regard to communal taxes. (Communal ordinance of the 14th of May, 1832.) The syndics (*Syndici*) qualified for the office of judge have notarial powers within their business district.

The higher officials are chosen by the credit unions, and the appointments are ratified by the King or the Royal Minister, except in the case of the Landschaft of Posen, where the members of the board of directors are nominated by the state. The syndics and the subordinate officials alone receive full salaries; the salaries of the members of the board of directors, who belong to the landowning class, are nominal and based on the compensation for loss of time and other expenses.

Within the limits of state supervision the Landschaften are self-governing and independent in the management of their business. The organization of the individual institutions is similar only in its general characteristics. The executive authority is composed of a general Landschaft board of directors; associated with this is a board of representatives (sub-committee) which, with the exception of Brandenburg, forms at the same time the board of appeals from the decisions of the general Landschaft board

of directors. The highest court of appeals, and the chief representative body, is the general Landtag (general convention), formed of representatives of the landowners, presided over by the royal commissioners.

The Landschaften of Silesia, the Margravate of Brandenburg, Pomerania, and West Prussia have a decentralized organization and are divided into departments, with special boards of directors and representatives. In the Margravate and West Prussia there is only an administrative department, while in Silesia and Pomerania the departments have a corporate constitution and hold their own property. In Silesia the greater part of the funds is the property of the department, and since this fund serves as the security for the mortgages it follows that in Silesia the Landschaften of the principality determine the appraisements and decide as to the amount of credit to be allowed, while the general Landschaft board of directors is empowered only to supervise the appraisements. In all of the other institutions there is either a regular supervision by the general board of directors, or the determination of the appraisements is wholly vested in this body.

Of the numerous privileges which were given to the older Landschaften at the time of their creation, the most important is the right to levy executions on mortgaged real estate without legal process. The statutes of newer Landschaften did not include this right, which would have required a special legislative act. They have been able to protect themselves in part (e. g., Posen and Schleswig-Holstein) through the statutory provision that the debtor,

on taking the loan, must, by statement before a notary, consent to immediate foreclosure in accordance with section 702, No. 5, of the civil process ordinance.

The Landschaft's right of foreclosure was practically extended by the Prussian law of the 3d of August, 1897, which became applicable to all public Landschaften established by the 1st of January, 1900. According to this law the statutes of a Landschaft may, with the consent of the state, provide that the right of foreclosure shall extend to personal property and shall include the coercive management (*Zwangsverwaltung*—receivership) of the real estate; further, that its demand for compulsory sale is to serve as a substitute for the title of the property which has been foreclosed upon; and, finally, that in case of waste or loss, the seizure can be executed by the Landschaft, instead of by the court, upon the movable property of the debtor, or by the coercive management of the real estate. The statutes may further provide that the legal foreclosure shall apply to the documents accepted by the syndics.

This law is very advantageous to the newer Landschaften and contains many improvements for the older institutions.

Finally, a very significant advantage which the Landschaft mortgage affords is as an investment for trust funds. The privileges of the Landschaften have not been affected by the Civil Code (*Bürgerliches Gesetzbuch*) and the accompanying laws. (Compare the reservation in article 167 of the introductory statute of the Civil Code.)

(*d*) Principles of Agricultural Credit, Especially Mortgages and their Funding—General Guaranty.

It follows from the defined purpose and the corporate organization of the Landschaft that each member has a right to be granted the use of credit in the ways provided by statute. The Landschaft is not authorized, like the mortgage banks, savings banks, and other institutions, simply to decline to make loans that are asked for. The purpose for which the loan is desired is not generally inquired into by the Landschaft. However, in the case of the Landschaft of the Margravate, a request for a loan to four-sixths of the estimated value must be based on an existing material need, for example, the redemption of another mortgage, improvement, etc. (Commentary by the chief board of directors, 1892, p. 38.) Credit is created by means of the issue of mortgage bonds (*Pfandbriefe*) bearing interest and made payable to bearer. The earlier system of the so-called old mortgages, which were partial mortgage instruments on a definite piece of property with the additional responsibility of the Landschaft corporation, has been given up. The following observations may be made concerning the legal security and material funding of the new mortgages, which alone are taken into account here.

The mortgage bonds (*Pfandbriefe*) are obligations of the Landschaft which are to be considered as funded on a mortgage claim of the same amount. At least this is the case in the older Landschaften. The legal connection between the mortgage bonds and the hypothecated

security which supports them is evidenced by the fact that the mortgage bond is drawn up by a special commission of control, which must be convinced, by looking through the mortgage documents in question, of the existence of an equivalent amount of mortgageable property, and that the mortgage document is provided at the same time with a stamp. The effect of the latter is that the keeper of the land register may record the surrender or the redemption of the mortgage security only on proof being given to him by a certificate that a similar amount of mortgage deeds is withdrawn from circulation. In the case of individual Landschaften the stamp is cancelled by the commission of control itself, under the same conditions. In the case of several Landschaften it is further prescribed by statute that the hypothecated securities shall be liable exclusively for the mortgage deeds, and claims may not be laid upon them by the other creditors of the institution. Most of the newer Landschaften have not adopted such a provision, the legal effectiveness of which is not free from doubt (statement accompanying the bill presented in the Reichstag in 1879–1880, concerning the law of mortgages and other pledges of debt). The newer Landschaften have not adopted the commission of control and the seal for the maintenance of equality between mortgages and mortgage bonds, but have placed the whole responsibility with the board of directors, in other words, the advisory management.

Thus, the legal relation between the mortgage deed and the hypothecated security in the individual institutions has been until now a more or less loose one. In

reality this matters little. The organization of the Landschaften and the nature of their management are a guaranty that no more mortgage deeds are issued than there are securities available. The question whether the holders of the mortgage bonds have a lien on the mortgage claims is of little significance for the Landschaften, because they do not enter into business of other kinds, and the mortgage holders do not thus compete with other categories of creditors.

The latter is not applicable of course to the Landschaften in Silesia and the Margravate, which are responsible for the obligations of the loan banks in question. (Compare below.) It is therefore not wholly without value for the Landschaften that in the imperial mortgage bank law, which, as is well known, gives to the holders of the mortgage bonds of the mortgage bank a preferred right to the underlying mortgages, a reservation is made whereby the states may create a similar privilege for the holders of the mortgage bonds of the Landschaften.

The chief consideration in the material funding of the mortgage deeds is the quality of the securities, e. g., the guaranties of proper estimated value and careful loans which borrowing institutions and persons can give. Since each land-credit institution which really desires to fulfill its duty must reckon with the possibility of loss, the Landschaften must have further material guaranties in order to make the mortgage deeds and their interest safe under all circumstances, just as the mortgage banks require a stock capital. The fund belonging to the Landschaft as a corporation, a widely varying amount with the individual institutions, is the chief security for the

creditors. A further security is the amortization fund, or in other words, the amortization deposit of the debtor. The old Landschaften had also the general guaranty of the borrowers, that is, the solid responsibility of the properties belonging to the members of the Landschaft. This general guaranty is an obligation created by special law, to wit, by the old Landschaft Regulation. Therefore it does not rest upon a title at private law, and is not affected by the legislation concerning the registers of landed property. In East and West Prussia, Silesia and Pomerania (with the exception of Neuvorpomerania, which was only subsequently attached to the Landschaft) all property capable of being mortgaged is subject to the general guaranty; in the Mayorate and Neuvorpomerania only that which is really mortgaged is subject to it. The state domains in Silesia are also subject to the general guaranty, and in East Prussia, the domains and forests. In Silesia and West Prussia there is no general guaranty for those series of mortgage deeds which are issued under special titles on the basis of loans in excess of one-half of the estimated value.

A general guaranty of that kind has no place in the newer Landschaften. A law would have been necessary for that. Very different systems have been chosen for the security of the mortgage bonds. Either special security funds or reserve funds are formed (for example, for the above series of the Silesian and West Prussian mortgage bonds, for the Silesian Rustikalian, the new West Prussian, the Berlin and the Posen mortgage bonds); or the borrowers are obliged to make a limited supplemental payment (5 per cent to 10 per cent

of their debt), as for example, in the institutions of Saxony, Westphalia, and the older Schleswig-Holstein institutions. (For details see Saling, pt. 2, pp. 300 ff.) For the new Landschaft of Schleswig-Holstein the noble cloisters and properties have undertaken to guarantee the common fund at 1,000,000 marks.

All of these insignificant distinctions with regard to the nature and quantity of the guaranties afforded to the holders of the mortgage bonds are hardly expressed in the valuation and rate of the mortgages. From this it appears that the public, and indeed rightly, depends chiefly on the integrity of the valuations and loans, and in this respect places great trust in the management of the Landschaften. It may be doubted whether, without the security of the general guaranty, the mortgage bonds would have acquired that confidence, both at the time of their introduction and later, which they now generally possess. The general guaranty is the historical foundation on which the mortgage system has developed, and which has made later progress possible.

The interest rate of the mortgage bonds has varied with general monetary conditions, and reflects accurately the interest fluctuations of the last century. At the end of the thirties a general conversion of the mortgages to 3½ per cent was carried through. The increased need of capital which railroad building and the development of industry brought with them soon led to an appreciation of money rates, which has slackened only since the end of the seventies. The mortgage bonds issued originally at 5 per cent have since then been gradually converted to 3½ per cent, and in the years 1894 and 1895 most Landschaften

continued the conversion to 3 per cent. Only a part of the Landschaften succeeded in effecting this conversion, as the appended table shows. In general, conversions quickly following each other have not been favorable for the mortgage bonds as investment securities, and have perhaps contributed to the fact that their rate, which was formerly equal to that of state securities, has fallen below it in recent times. The Landschaften have never resorted, as the mortgage banks did formerly, to the issue of premium mortgage bonds, or those with fixed premiums payable at redemption, a measure which is regarded as suspicious by the mortgage banks, and which has been forbidden to them by Imperial law.

Recently, under the influence of the continually rising interest rate, the East Prussian Landschaft has resorted again to the issue of 4 per cent mortgage bonds.

Concerning the possibility of recalling the mortgage bonds, see below under 5 B.

(*e*) Amount and Kind of Security Afforded, Liability to Recall, Amortization, etc.

A. *Limits to which loans are made.*—This limit is determined by establishing a definite valuation of the property; loans may be made to a certain proportion of this valuation, which is variously determined by the individual institutions. The Landschaften loaned originally to half of the estimated value. At present they loan generally to two-thirds of this value. The West Prussian Landschaft loans to six-tenths; the Posen Landschaft, which formerly loaned only to one-half on properties of less than 30,000 marks valuation, has recently introduced the general

policy of loaning to two-thirds of the value. The differences arising in this respect need not be considered, since where the proportion to which the property may be mortgaged is fixed low, the valuation is usually raised. The detailed provisions drawn up by the old Landschaften concerning the proceedings for estimating the value are very numerous. In general, three groups are to be distinguished, in which the basis for the mortgageable valuation was:

(1) The land tax; (2) a simple estimate of the value made on the basis of the land tax; (3) a formal estimate of the value.

In the first case loans were made to a certain multiple of the yield of the land tax, usually to fifteen times that tax, without further inquiry into the value. Under the second method a simple estimate of the value was made, which was based upon the land tax. Under the third method an especial estimate of the value was made. The second method is applied advantageously in making loans upon smaller holdings, and the third in the case of loans on larger properties. The first and the second, or the first and the third alternate with each other, so that he who desires only a small loan can elect the cheap and convenient method of making the loan according to the land tax. The formal estimate of the value is partly an estimate of the value of the land, partly an estimate of the product; even in the cases in which estimates of the land value are introduced, the value is so measured that it does not represent the purchase price, but the value of the product. Forest lands are mortgaged on the basis of the value which the land would have for other uses. The mortgaging of

the forests as such, which presupposes a permanent control of the cutting and the forest culture, occurs in Silesia, and was earlier practiced also in Brandenburg

The estimate is made by local deputies who, as members of the Landschaft, are jointly responsible for its correctness. For determination of the value see above, under 2.

B. *The way in which credit is granted; the liability of recall; additional loans.*—The Landschaften grant amortization loans which can be repaid by the debtor at any time, with the statutory period of notice. These loans can be recalled by the Landschaft, however, only on definite grounds (waste of the property, destruction, and the like). To the right of the debtor to cancel the debt corresponds the right of the Landschaften to recall the mortgage bonds, since the balance must be maintained between mortgage bonds and securities. This right exists even in addition to the customary redemption in the ordinary course of amortization. Strangely enough, the old Prussian Regulation forbade the Landschaft the privilege of recalling the mortgage bond, but did not prohibit the holder of the bond from returning it for redemption. On the other hand, the right of giving notice of return was expressly granted to the holders of the bonds (for example, Kur- und Neumark credit regulation of 1777, section 271). This had its reason perhaps in the fact that the Landschaften were as yet new institutions, and it was not certain that the mortgage bonds would be taken unless a right to return them were granted. This right of giving notice of return was properly abolished in the above-mentioned conversions in the thirties, and without reservation, so that the holders

of the mortgage bonds, even in the event of non-payment of interest, can not give notice of their return.

The old Landschaften pay the value of the loan in mortgage bonds, which are converted into money for the debtor by the loan banks named under 6; the Hanoverian institution pays in cash. If the rate of the mortgage bonds stands below the face value the old Landschaften furnish the debtor additional loans on demand from their ready capital to make up for the difference in the rate. Interest is figured on this advance for a number of years in addition to the quotas payable to the amortization fund on the principal. This proceeding is similar to that of the mortgage banks with regard to covering the discount on mortgage bonds.

C. *Things required of the debtor—Administrative costs.*—The Landschaften, according to the nature of their organization, furnish credit as cheaply as conditions of the money market permit. Only the newer institutions collect assessments to cover extraordinary administrative costs. The older ones meet such costs from the interest on the corporate property, formerly from a stamp tax (*Quittungsgroschen*). The funds belonging to the Landschaften were created in former times mainly by the additional payments of the debtor; the sums given by the state form only a small part of the same.

D. *Amortization—Disposition of the amortization fund.*—The old Prussian Landschaft Regulation laid no obligation on the debtor to make amortization payments. At present this requirement has been generally introduced, but the payment varies widely in amount and manner. The newer Landschaften have a general one-half to three-

fourths per cent amortization payment. The institutions of Silesia, the Margravate, and Hanover have a regular amortization payment of one-half per cent and over. A regular amortization payment (formerly at least one-half per cent) is prescribed for those loans also on the basis of which "central mortgage bonds" are issued. (See Central Landschaft under 7, below.) In the Pomeranian Landschaft, as soon as the debtor has paid off 5 per cent of his debt, he can demand to be released from further amortization payments, but must definitively give up the right to make any later disposition of the amortization fund. The West Prussian Landschaft collects amortization payments of one-half per cent for ten years on that part of the debt which is based upon the first half of the estimated value. For that part of the debt which exceeds the first half of the estimated value (up to six-tenths of the estimate) a permanent amortization payment of one-half per cent is required. The East Prussian Landschaft has made the earlier amortization provisions more strict since 1899, in that one-half per cent of the whole loan must be paid off annually for those loans which exceed the first half of the estimated value. A voluntary increase of the amortization payment is generally permitted.

Corresponding to the nature of amortization credit is the right of the debtor to demand release from that part of his debt which has been redeemed. This is generally limited by statute, so that at least 10 per cent of the debt must first be redeemed. Furthermore, with most Landschaften the debtor is granted the right, after the redemption of 10 per cent of his debt, to de-

mand new credit to this amount—that is, to demand an amount of credit corresponding to his redemption deposit. In this case a revision of the estimated value is made. (For example, Regulation of the Pomeranian Landschaft of 1889, sec. 291.)

(*f*) Loans on Peasant Properties.

While the newer Landschaften (with the exception of that of Schleswig-Holstein of 1895) were founded for peasant properties, the older Landschaften were originally intended for the property of the noble classes alone, and have only later voluntarily made their credit accessible to the peasant classes, or more exactly, to the properties not belonging to the noble classes. Especial institutions under the cooperative management of the Ritterschaftliches Kredit-Institut exist in Silesia, the Margravate, Pomerania, and West Prussia. They are organized as independent corporations in the last three provinces. In East Prussia peasant property is accepted by the Landschaft itself. Since this is true also of the new Landschaft of Posen, special institutions for peasant mortgage credit exist within the kingdom only for the four provinces above mentioned. The minimum property on which loans can be made is generally fixed at 75 to 150 marks land tax, or a corresponding capital value, and thus includes the large peasant holdings, the medium holdings, and a part of the independent smaller holdings. The Silesian Landschaft extends its loans considerably further under the limits of an independent development of the land. In 1895 it reduced the necessary minimum land tax from 30 to 15 marks.

Concerning the results obtained in the making of loans on peasant properties, compare below under 9.

(*g*) Subsidiary Businesses of the Landschaft—Fire Insurance and Loan Banks.

In East and West Prussia there are special companies under the management of the Landschaft for the insurance of the properties belonging to the Landschaft against fire. The Landschaft loan banks are of general importance. The first bank, now known under the title "Landwirtschaftliche Bank" was founded in 1848 by the Silesian Landschaft. The other legally independent provinces followed, so that at present banks of this kind exist in Königsberg, Danzig, Posen, Berlin, Stettin, Breslau, and Halle; of these the one in Berlin, with an annual business of about 1,300,000,000 marks, and the one in Breslau, with an annual business of about 400,000,000 marks, are by far the most important. The banks are independent, with the exception of those in the Margravate and Silesia, for which the Landschaft is responsible. They are endowed from the Landschaft fund, and possess corporate rights. Their original capital, exclusive of the reserve fund, is as follows:

	Marks.
Berlin	2,668,000
Breslau	5,000,000
Königsberg	2,000,000
Danzig	1,200,000
Posen	2,000,000
Stettin	2,000,000
Halle	2,000,000

This capital yields a return of 6 per cent to 10 per cent on the average. The net earnings, in so far as they are not turned into the reserve fund of the bank in question, go to the fund of the Landschaft, or to the amortization fund, and are thus applied for the benefit of all. More important than this direct income are the indirect ad-

vantages which accrue to the borrowers through the medium of the loan bank, and which make them independent of bank credit. The chief business of the loan banks is the financing of the mortgage business, which covers such activities as the following: The sale and purchase of mortgage bonds; payment of interest on mortgage bonds; payment of cash for mortgage bonds allotted; the carrying out of conversions; and, finally, the making of loans to individual borrowers by furnishing advances and by the redemption of private mortgages. In addition, the loan banks carry on banking business of all kinds, with the exception of speculative transactions. They have developed the deposit business especially. They furnish, chiefly to the mortgage borrowers, temporary credit against bills or the pledge of securities or mortgages. The loan banks are therefore in the nature of personal credit institutions which are intended as a support and a supplement to the credit of the Landschaft.

(*h*) The Central Landschaft.

The Central Landschaft, which was created on the 21st of May, 1873, is intended for the further extension of the associative principles on which the Landschaften rest. It is a union of nine Landschaften, organized with the object of promoting an international investment paper through the creation of a unified security possessing the advantages of a mortgage bond. Thus the organizers hoped to capture the world market for mortgage-bond credit. The Prussian Centralbodenkredit-Aktiengesellschaft had been organized a few years earlier for the same purpose, but on different principles. The statute of the Central Land-

schaft is designed to allow the included Landschaften the greatest possible freedom. The Landschaften reserve the right to issue provincial mortgage deeds. Mortgage loans in central mortgage deeds are granted as a matter of course through the provincial Landschaften, according to their own principles of making loans, except that changes in the principles of estimating the value and in the terms on which loans are made require the concurrence of the Central Landschaft board of directors. This body is chosen from the administrative heads of the included institutions. The guaranties created for the security of the central mortgage bonds are really of a provincial nature. (Saling-Siedfried, p. 344.)

The amortization contracts of the real estate belonging to the Central Landschaft union serve as a general guaranty, which in case of necessity can be drawn upon to cover losses, according to the detailed ordinance of the Central Landschaft Board of Directors. (Statute, sec. 22.) The included institutions are permitted to withdraw from the union, and other Landschaften may enter with the consent of the Landschaften belonging to the union.

The Central Landschaft has not experienced the general increase which was expected, and as a result has not been able wholly to fulfill the hopes placed in it. Several institutions interested in its foundation have since withdrawn. Of the two and one-third billions of Prussian mortgage bonds which were outstanding at the end of 1897, only 336,000,000 were central mortgage bonds. The Silesian Landschaft alone had a larger circulation of mortgage bonds, and thus the standing of the Central

mortgage bond on the Exchange is not at all prominent, in comparison with the provincial mortgage bond, which the public has known for many years. The reason for the relatively small support which the institution has received seems to be that the provincial Landschaften find the limitation of their activity, which centralization unavoidably entails, to be an overwhelming disadvantage.

(*i*) Results and Further Purposes.

The services which the Landschaft, as the intermediary between capital and the estate which needs credit, performs for the former are ordinarily less considered, and yet it is evident that the preparation of over 2,000,000,000 of investment securities which have stood the test of the worst crises of the century is significant for solid capital. In the present agricultural crisis,[a] which is affecting chiefly the larger properties of East Germany, the shrewdness with which the management of these institutions avoided every over-tension of agricultural credit in the days of agricultural prosperity is now being commended. Mortgage credit very properly shows itself therefore to be unaffected by the disturbances of the general depression.

The greatest importance of the Landschaften, however, lies not in their achievements for capital, but in the improvement of land credit. The interest of the estate requires an unrecallable credit, which is given as cheaply as possible. Besides the Landschaften, unrecallable credit is also given by mortgage banks and communal credit institu-

[a] This article was published in 1900.

tions (not savings banks), but these institutions are generally not able to compete with the Landschaften in cheapness of credit. Hence, where the Landschaften have developed, the business of the mortgage banks is limited chiefly to municipal loans. The great importance of the impossibility of recalling the loan consists partly in the fact that the debtor (who on his part can cancel the loan at any time) has the advantage of a fall of the interest rate, but not the disadvantage of a rise, such as happens especially in times of tightened money conditions.

Collected material is not available concerning the results of the whole development of the Landschaften. We limit ourselves, therefore, to the following reports of the business of the Landschaft of the Margravate, which in a certain degree may be considered as typical of the conditions for the other old Landschaften. The two institutions considered are the "Kur- und Neumarkisches Ritterschaftliches Kredit-Institut," for loans on larger properties, and the new "Brandenburgisches Kredit-Institut," for loans on peasant property, which is connected with the former under a common management. Their districts extend to the boundaries of the Kur- und Neumark, as they were in 1777, a territory which is only partly covered by the present province of Brandenburg.

(A) At the close of 1897 there were 1,031 properties mortgaged with the Ritterschaftliches Institut, on which a total mortgage debt of 202,468,340 marks was issued, partly in Kur- und Neumark mortgage bonds and partly in Central Landschaft mortgage bonds. The average loan was 197,000 marks.

The total loans are divided as follows:

TABLE I.

	Properties.	Amount.
		Marks.
Altmark and Priegnitz	146	25,382,950
Mittelmark	354	56,162,000
Uckermark	164	40,616,670
Neumark	367	80,306,720
Total	1,031	202,468,340

The progressive mortgaging of properties within the district of the Kur- und Neumark Ritterschaftliches Kredit-Institut shows the following collection of the mortgages issued since the creation of the institution in 1777, deducting those meanwhile redeemed:

From 1777 to—	Marks.
1785	11,100,600
1795	10,920,900
1805	11,526,900
1815	12,665,400
1825	24,739,950
1835	34,657,650
1845	37,894,950
1855	38,295,450
1865	51,541,350
1875	82,204,600
1885	152,551,580
1895	192,303,100
1896	197,404,160
1897	202,468,340

Estimates of value for the purpose of loans have been made as follows:

	Properties.
(*a*) According to formal estimate of value	661
(*b*) According to estimates based on land tax	312
(*c*) According to section 9 of the law of the Centrallandschaft (fifteen times the net amount of land tax)	55
(*d*) Basis of earlier purchase price	3

The interest on the mortgages is being paid increasingly by checks on the accounts of the borrowers at the Ritterschaftliche Darlehnskasse. (See above under 7.)

Assessments for administrative costs have not been collected from the borrowers for a long time. The collection of the considerable duties and fees which are legally allowed to the institution has been discontinued "until further notice," so that they can be resorted to if necessary.

The property of the corporation amounted to in—

	Marks.
1850	2,752,591.52
1860	3,073,799.67
1870	3,522,274.75
1880	4,961,075.36
1890	9,054,876.29
1893	10,268,937.07
1897	10,918,378.49

The total amount of the special amortization fund amounted to 21,043,776.34 marks at the end of 1897; and since this fund is available, by statute, for emergencies, the total reserve, including the property of the corporation, amounts to about 16 per cent of the mortgage debt.

The amortization fund in itself amounts to not more than 10 per cent of the mortgage debt. Thus it appears that, after reaching the necessary minimum amount of 10 per cent of the redemption fund, the borrowers generally demand suspension of the redemption payments. It is not shown how far new credit is demanded after such suspension. The debtor can not make a direct claim upon the accumulated redemption fund of 10 per cent (as in the case of the other Landschaften).

From the total amortization fund received since 1845, the following payments have been made:

	Marks.	Marks.
For redemption of mortgage deeds		46, 905, 915. 92
For repayment of—		
Cash advances due to difference in exchange rate	6, 674, 896. 32	
Cash advance loans	1, 559, 508. 18	
		8, 234, 404. 50
For interest on—		
Cash advances due to difference in exchange rate	1, 708, 285. 56	
Cash advance loans	244, 883. 50	
		1, 953, 169. 06
Total payments		10, 187, 573. 56

It is yet to be mentioned that in the year 1897, 785,916.61 marks were voluntarily paid in by the debtors to strengthen the amortization fund; this sum is included in the above amortization fund. The possibility remains, however, that a part of these payments were not really made for the purpose of accelerating redemption, but for the purpose of raising the amortization deposit to 10 per cent of the debt in order to secure in that way a cancellation of a corresponding part of the debt, and to obtain new credit.

(B) At the end of 1898 there were 8,397 pieces of property mortgaged with the new Brandenburg credit institution for peasant property, with a total loan of 125,003,250 marks. The amount of the average burden was thus 14,900 marks as against 16,200 marks in 1894, 17,700 marks in 1890, 22,000 marks in 1895, and 40,000 marks in 1880. These figures show how the institution has applied itself increasingly to lending upon the smaller peasant properties.

The total loans are distributed as follows:

	Pieces of real estate.	Value.
		Marks.
Altmark and Priegnitz	1,485	19,969,000
Mittelmark	3,044	48,838,800
Uckermark	1,127	20,241,950
Neumark	2,741	35,953,500
Total	8,397	125,003,250

Among the 8,397 pieces of real estate are 515 municipal properties which are devoted to agriculture.

Five hundred and thirty-eight new pieces of real estate have been mortgaged during the business year 1898, and during the same time 78 pieces have been freed from debt through the redemption of the mortgage.

The mortgaging of real estate in the district of the new Brandenburg credit institution, which has generally been progressive, shows the following collection of the mortgages issued since the creation of this institution (statute of the 30th of August, 1869), deducting those redeemed in the meanwhile:

To end of—	Pieces of real estate.	Value.
		Marks.
1870	4	47,550
1875	22	739,950
1880	93	3,694,600
1885	1,377	30,144,800
1890	4,195	74,274,300
1895	6,649	105,672,900
1896	7,348	114,496,000
1897	7,937	120,776,750
1898	8,397	125,003,250

Of special interest is the relation, given for this institution, between the new loans and those loans which served only for the conversion of a former private mortgage.

The mortgage debt was entered in the land register as follows:

	Marks.
As a new debt	49,750,628.50
Through the conversion of mortgages	75,252,621.47
Total	125,003,250.00

The appraisements for the purpose of making the loan were made as follows:

(*a*) For 299 pieces of real estate, on the estimates of value.

(*b*) For 6,514 pieces of real estate, on the land taxes.

(*c*) For 1,584 pieces of real estate, according to the final sentence in section 9 of the statute of the Central Landschaft for the Prussian States of the 21st of May, 1873 (at fifteen times the income of the land tax). The redemption fund amounted to 6,016,778.42 marks at the end of 1898.

From the current redemption funds the following sums have been applied to the redemption of mortgage bonds, and for repayments of cash differential advances and advance loans due to the lower rate of mortgage deeds, or for the interest on these in the period from 1873 to the 31st of December, 1898:

	Marks.
For mortgage-bond redemption	5,485,962.88
For repayment of—	
Cash advances due to difference in exchange rate	951,536.36
Cash advance loans	164,587.50
For interest on—	
Cash advances due to difference in exchange rate	366,021.67
Cash advance loans	29,724.75

The corporate property of the institution is still small. The costs of management are borne by the Ritterschaftliche Hauptinstitut, for the moderate charge of one-tenth per cent of the mortgage circulation. A part of this sum has been given for the last few years to the safety fund of the peasant institution. The borrowers are to make the following annual payments on their loans for interest and gradual reduction of the mortgage loan:

(*a*) Interest for the mortgage holder at 4 per cent or 3½ per cent or 3 per cent.

(*b*) For redemption of the mortgage, one-half per cent.

(*c*) Contribution to the cost of management or to the safety fund of the new Brandenburg credit institution, one-tenth per cent. (Cf. above.)

The mortgage circulation of the other Landschaften, as of these institutions, has significantly increased in the last fifteen to twenty years. Since the value of the properties has not increased in that time, and since only the smaller number of the new loans made to the larger properties rest on the conversion of older private mortgages, it follows that in this increasing extension of agricultural credit there has been an increase of the total debt of agricultural properties. This fact is indeed recognized in other investigations. However suspicious this phenomenon has become, yet it shows, on the other hand, the evident use of the Landschaften, which has made it possible for the land holder to utilize his credit most advantageously within the limits of safety in time of need. If the Landschaften did not exist the total debt would not be smaller, but would be far heavier and more oppressive, and would have been made at a heavier interest rate, while there

would have been the danger of the recall of the loan at any time.

It lies in the nature of a corporation which is compelled to maintain definite standards, that the Landschaften are deprived of the mobility which the mercantile mortgage banks have. Yet charges of oppressiveness, tardiness, and expensiveness in loan proceedings are but seldom heard. Meanwhile perhaps all institutions have improved in this regard in the last few decades, to which end the introduction of simplified principles for estimating the value for lower loans has contributed particularly. The keen interest which has been manifested recently with regard to the Landschaften in general, and also the activity of the Landschaft institutions, give assurance that they will find in the achievements of the past a spur for further perfection in the future.

The amortization system of the Landschaften is considered on many sides as superannuated or unsatisfactory and contradictory. On the one hand, compulsory amortization is generally rejected for present agricultural conditions, because the amortization quotas are frequently not to be saved from the products of the property. A further argument is that, in the case of change of ownership, which occurs now more freely than formerly, the seller is not always able to bind the purchaser to make compensation for the amortization, in which case he loses the fruits of his economy. The principal supporters of amortization, on the other hand, hold that compulsory amortization does not go far enough; and they show particularly that the authority of the debtor to make dispo-

sition of the amortization deposit after it has reached a definite amount is harmful to the redemption of the debt.

It is to be observed that amortization is of importance for the credit institution independently of the above consideration, in that the amortization fund serves to secure the mortgage, and takes the place of a safety fund. This fund would be necessary in any case, and would be collected from the debtor. A moderate amortization fund, however, such as is obtained under the present right of the debtor to make disposition of the deposit, serves this purpose.

From the general standpoint the principle of the gradual redemption of the debt, which is practically obtained only by means of compulsory amortization, is undoubtedly the proper one, since the condition of a debt upon the property is not the normal one. The postulate derived from this is that improvement debts must be redeemed from the income of the improvement, and that other debts must be redeemed before the return of the same event which caused the debt; e. g., in the case of inheritance debts, the occurrence of the next demise of the property. It is also claimed for the idea of compulsory amortization that the amortization deposit serves as a kind of security for the personal credit of the debtor, and is useful in case of a temporary money stringency. The objection against this is that the present amortization system of the Landschaften, with the all too small amount of the amortization contributions, is not sufficient for the plan of the redemption of the debt. The complete carrying out of the plan fails, however, on the given conditions. If the right of the debtors to dispose of the amortization

deposit were withdrawn, the result would frequently be that they would redeem the mortgage by taking a loan at a mortgage bank or from a private creditor, in order to accomplish the withdrawal of the deposit. This method has been used heretofore in order to withdraw the amortization fund prematurely. In any case a time of declining net income is not the proper one for compelling the debtor to make heavier annual payments, or for rendering it more difficult for him to recover a previous deposit. Though the full application of correct principles is not now attainable, yet present conditions by no means prevent us from approaching this end. The agricultural population, and even the peasant population, are generally possessed of both the intelligence and the inclination to redeem their debts, as the voluntary payments to the amortization fund show; and the problem is to use this knowledge. The plan under which the amortization was introduced for the old Landschaften furnishes an instructive parallel for the present in this respect. This was by having the debtor continue to pay 4 per cent when the conversion of the thirties reduced the interest rate from 4 per cent to 3½ per cent, the one-half per cent difference being applied to amortization. In the more numerous and more extended conversions of peasant private mortgages into mortgage deeds at the present time there is not, however, a single instance in which the debtor continues to pay the former interest in order to make it a really effective amortization. Secure peasant mortgages frequently pay from 4½ to 5 per cent interest, while the Landschaften, at least until the recent rise in interest rates, gave credit at 3 per cent to 3½ per cent. Thus with the reduction

of the former interest rate, a total yearly payment of 4¼ to 4½ per cent, would yield an amortization of 1 to 1¼ per cent. In practical operation the debtor could certainly be allowed to undertake, voluntarily, a higher amortization quota than that prescribed by the statute.

In general, the increased utilization of the Landschaften for peasant and small peasant holdings in Prussia is undoubtedly one of their most important duties. The institutions have taken up this duty zealously in recent times, with state encouragement. In the years 1895 to 1897, the Landschaft regulation was almost entirely changed in the direction of simplifying the proceedings for estimating the value of the peasant property, the cost was reduced and the amount of the loan was fixed at a more equitable relation to the value of the smaller holdings. Next to this, the united efforts of the Landschaften, agricultural councils, and state authorities have been directed to bringing the advantages of agricultural credit before the peasant class by proclamations, addresses, etc., and to inducing this class really to make use of this agricultural credit, particularly in the conversion of existing higher interest-bearing recallable private mortgages. These conversions form a large part of the mortgage loans, as is shown by the account given above of the new Brandenburg credit institution.

It is especially noteworthy that the East Prussian Landschaft has for many years worked in the proper direction by sending officials, after making previous public announcement, into different localities to give free information concerning agricultural credit, and to receive appli-

cations for loans. If a number of participators announce themselves in the same locality, then so-called village estimates (*Dorftaxen*) of valuation are made at reduced fees; this happened in 78 localities in 1898.

Past accomplishments are always to be regarded only as a beginning. In the provinces of Brandenburg, East Prussia, and Silesia, where the transactions of the Landschaften are most advanced, the number of the peasant properties actually loaned upon is only a very small part of those which are available for the purpose. In Brandenburg there are 8,400 pieces of real estate on which loans have been made, as against 50,000 pieces of real estate on which loans may be made. The great majority of these properties are not altogether free from debt, but burdened with savings bank and private mortgages, subject to recall and bearing high interest. The mortgage holdings of the Prussian public savings bank amounted to 995,000,000 marks in 1892, which was loaned for the most part on smaller and medium sized holdings. In Brandenburg, the amount was 48,000,000 marks. Of course the savings banks have been led, by the influence of the progress of the Landschaften, to reduce the interest rate on their mortgages, in order to retain their borrowers.

In East Prussia, in the year 1897, the holdings were as follows:

	Properties.
Up to 5 hectares, exclusive	160, 250
From 5 to 10 hectares, exclusive	21, 000
From 10 to 50 hectares, exclusive	36, 500
From 50 to 200 hectares, exclusive	7, 500
200 hectares and over	1, 750
Total	227, 000

According to the extent of tillable surface, holdings below 5 hectares, and two-thirds of the holdings from 5 to 10 hectares, are to be set down as unavailable for loaning purposes; that is, as below the minimum estimated mortgageable value of 1,500 marks. There remain 52,750 properties, from which are to be deducted about 5,000 lease and secondary properties in foreign districts, which are included in the above enumeration. This leaves 47,750 mortgageable pieces of real estate, as against 12,000 which are actually loaned upon.

Experience proves that the safety of the Landschaft is in no way endangered by the inclusion of peasant holdings. The latter are more capable of enduring a crisis than the larger properties, and further, they are more easily salable because the number of intending purchasers (*Reflektanten*) is larger. In order to induce the peasant class to avail themselves of mortgage loans, it is not sufficient to make the procedure as easy as possible. Because of the smaller business experience and greater immobility of these classes of the population, the Landschaft organs, in connection with the agricultural councils, the agricultural societies, and the public authorities, must exert themselves in the movement.

(*j*) The Private Land Credit Unions.

Numerous unions of the landholders have been formed after the model of the Landschaften. These have taken the form of purely private companies, or of associations for mortgage business, and are brought under state over-

sight by the privilege of issuing securities payable to bearer. Of these the following are to be mentioned:

a. The Dantziger Hypothekenverein of 1868.

b. The Landschaftlicher Kreditverband for the province Schleswig-Holstein, of 1882. (NOTE.—It has since been transformed into a public institution.)

c. The Stettin National-Hypotheken-Kreditgesellschaft of 1870.

d. The Landwirtschaftlicher Kreditverein in the Kingdom of Saxony, of 1866.

e. The Bavarian Landwirtschaftliche Bank of 1896.

In part these private legal "Landschaften" have later transformed themselves into public institutions. This was the case with the Landschaft of the province of Saxony, mentioned above under section 2. In the unions of municipal land and house holders there is at present a strong movement in favor of such a corporate organization of land credit, but the opposing difficulties are underestimated. One of these difficulties consists in the frequent change of possession of city real estate, which would render a practical self-management of the real estate much more difficult to carry out than with the more stable agricultural holdings. The share of the householders in the management of the public Berlin municipal mortgage schedule office (above, sec. 2) is not as remote as with the Landschaften proper.

A general judgment can not be formed concerning the private institutions and their adaptability as private companies to this work. The Bavarian institution mentioned above under (*e*) seems to meet a keen demand

which has arisen from the initiative of Bavarian agriculture in the absence of any existing agricultural institution. In the first two years of its existence it has reported 1,955 loans, with a total of 12,750,650 marks.

With respect to the legal form of institutions of this kind which shall arise in the future, it is to be observed that by section 2 of the mortgage bank law, mortgage business is forbidden to the registered limited-liability companies. New institutions must take the form of a union in the sense of section 22 of the Civil Code. The elasticity of the provisions of the code makes the form very suitable.

VI.

AGRICULTURAL IMPROVEMENT BANKS (LANDESKULTUR-RENTENBANKEN).[a]

By Dr. J. Hermes.

[Article from Conrad's *Handwörterbuch*, second edition.]

(1) Principles of Legislation.

The *Landeskultur-Rentenbanken* are public institutions which supply the necessary capital for the carrying out of agricultural improvements by means of loans to landowners, companies, and communities. The expression "agricultural improvements" is to be taken here in the broadest sense. Such institutions were first created in Saxony (1861), and then in Prussia, Hesse, and Bavaria. The basis of this legislation lies in the following considerations.

The capacity of the soil to yield income, with which the most important state interests are closely connected, is in Germany almost everywhere still capable of being very greatly increased. This is especially true of Prussia, on account of the great extent of its territory. An article which appeared in 1868 in the *Neue Landwirtschaftliche Zeitung* (printed in Schober, *Landeskultur-Rentenbank*, pp. 8–12), and which has exercised considerable

[a] Literally, the expression "*Landeskultur-Rentenbanken*" means agricultural improvement income banks. As we have no counterpart for them in the United States, the German term has been retained in the translation. The nature of the banks is clear from the article itself.

influence on legislation, estimated the increased income obtainable in Prussia by drainage alone at 177,000,000 thalers yearly. Though this estimate would not bear close examination, yet it is a fact that wide districts remain in need of this most useful of all improvements because of stagnant waters which are still found in spite of the extensive drainage improvements since 1868.

Official efforts in this direction have been made, for example, by the administrative district of Oppeln. Here an area of 46,788 hectares, or over 8 German square miles, was ascertained to be in need of drainage in the districts of Pless, Rybnick, Lublinitz, Ratibor, and Tost-Gleiwitz, in the emergency of 1880. Of this area 10,806 hectares were domain possessions. From the passage of the emergency law of February 23, 1881, to the end of 1898, 222 drainage companies were formed or promoted, and 21 drainage systems installed on small properties which, owing to their location, could not be included in the public associations. The total area was 24,205 hectares and the cost 6,000,000 marks. The results were highly satisfactory. An area of 680½ hectares was made tillable for the first time. (*Berliner Korrespondenz* of June 20, 1899.)

Though the conditions of this district are not typical for the whole State, they are by no means exceptional. For example, a great part of East Prussia suffers in a similar manner from injuries by floods, and drainage is but one factor for increasing the agricultural productivity. Other not less important tasks and results are to be considered with regard to the present position of technique in the sphere of irrigation, the controlling of rivers, and dike building.

If legislation finds an important task in the furthering of improvement credit, then it has to take into consideration, on the one hand, the peculiarities of this kind of credit; and on the other hand, the general condition of agriculture, and the situation in regard to land debt. Improvement credit must be given for long periods and must not be liable to recall, so that the loan may be gradually repaid from the income of the improvement. Such loans do not generally meet the needs of the private capitalist. Nor is comprehensive assistance to be expected from the existing institutions which make a business of furnishing amortization mortgages, such as the agricultural or mortgage banks and communal credit institutions. A large part of the landed possessions in Germany is already so heavily indebted that it can hardly ask for further credit along the prudent lines on which these institutions make loans. The furtherance of improvements also lies outside the sphere of the existing credit institutions. On these considerations is based the creation of special institutions — Landeskultur-Rentenbanken—devoted to the task of furnishing credit for such improvements. In Bavaria, Saxony, and Hesse they are state institutions. (Bavarian law concerning the Landeskultur-Rentenbank of April 21, 1884, and the supplements in the finance laws of 1894, 1896, and 1898; the endowment of the institution was raised to 8,000,000 marks in 1898. Law of Saxony, concerning the erection of Landeskultur-Rentenbanken, of November 26, 1861, and the provision for carrying this into execution of November 26, 1861, with supplementary laws of June 1, 1872, August 23, 1878, May 1, 1888, and the executory statutes of

June 1, 1872, and May 2, 1888. The law of Hesse, concerning the erection of Landeskultur-Rentenbanken of March 20, 1888, and the erection of a Landescreditkasse of October 15, 1890. The Landeskulturrentenkasse went out of operation according to article 20 of the law of 1890—also supplementary law of August 8, 1896.) In Oldenburg the agricultural credit institution erected as a state institution by the law of February 14, 1883, serves at the same time for the advancement of agriculture. In Prussia, by the law of May 13, 1879, which dealt with the erection of Landeskultur-Rentenbanken, the erection of such institutions is freely permitted to the provincial (communal) associations. The Provincial (communal) Union is responsible for the institution. The law provided standards which govern such Landeskultur-Rentenbanken as are erected by the statute of the union in question. This statute is granted by the national authority. On the basis of this law, such institutions have since been erected for the Provinces of Silesia (statute of July 22, 1881, and supplement of June 8, 1891), Schleswig-Holstein (statute of October 10, 1881, and supplement of May 8, 1888), Posen (statute of June 17, 1885), and Westphalia (statute of July 20, 1896).

The outlines of the institution are the same in all the States mentioned. The Landeskultur-Rentenbanken give unrecallable amortization loans for the purpose of carrying out agricultural improvements, and create the capital for this by issuing bonds payable to bearer (*Landeskultur-Rentenbriefen* and *Landeskultur-Rentenscheinen*), which are gradually redeemed from the amounts paid in by the

debtor for their redemption. The internal constitution of these institutions is of no especial economic interest.

(2) The Organization of the Landeskultur-Rentenbanken in detail.

1. *The purposes which the banks serve to advance.*— According to the Prussian law of 1879, loans may be given (*a*) for the advancement of agriculture, especially for drainage and irrigation, for the building and repairing of roads, for planting forests and making land tillable, and for the introduction of the new agricultural economy; (*b*) for the building of protections for river banks; (*c*) for the building, extension, and maintenance of dikes and structures pertaining to the same; (*d*) for the construction, use, or maintenance of water courses or artificial lakes, for the restoration and improvement of water courses, and other aids to navigation. The sphere of action for the existing institutions is sometimes more narrowly limited by statute. The advancement of drainage is expressly forbidden to the institution of Schleswig-Holstein, while, on the other hand, the institution of Posen devotes itself exclusively to drainage and irrigation. In Saxony, where the Landeskultur-Rentenbank is connected with the Land-Rentenbank, which is designed for the furthering of (mortgage) redemptions, the purpose of the former institution, according to the supplementary law of 1872, is to furnish credit for the improvement of water courses (law of Aug. 15, 1855, secs. 1–29), for agricultural drainage and irrigation, as well as for municipal water supply and sewerage. In Bavaria the stated purpose is similar to that of Prussia; but the furthering of aids to navigation

and the construction of artificial lakes are mentioned separately as improvements for which the combination of pieces of real estate is allowed. For Hesse, compare article 1 of the law of 1890.

2. *Limits to which credit is supplied.*—With the great indebtedness of agricultural property which already exists, the question arises, What security will be afforded for the loans made by the Landeskultur-Rentenbank? This question is the real crux of the whole matter. The proper cancellation of these loans is the first condition for the practical safety of the whole institution. If the point of view is taken that in any real improvement the value of the soil must be increased at least by the amount of the expenditure, then it may be held that the income to be paid to the Landeskultur-Rentenbank legally takes precedence over the private mortgage already given. It would always be assumed that an official examination could satisfactorily assure the profitableness, the proper execution, and the maintenance of the undertaking to be performed with the loan given by the Landeskultur-Rentenbank. The legislation in question has only tentatively approached this idea, the realization of which would make any further provision concerning the limit of safety superfluous, and would afford a radical solution of the difficulties presenting themselves with regard to this limit. In Prussia the plan of creating compulsory prior lien for drainage loans at least, before the satisfaction of private obligations, was checked by the proposal in the preamble to the law of 1879, and particularly by the opposition to the agricultural credit institution. There is then, according to the German laws, no

obligation on the mortgage creditor to give precedence to the claims of the Landeskultur-Rentenbank for the improvements installed by the individual landholder. In the case of Prussian drainage loans, and all Bavarian loans for purposes of agricultural improvements, detailed proceedings are provided for having the interested parties declare whether they will voluntarily yield precedence to the claims of the Landeskultur-Rentenbank. Creditors who do not declare their opposition to this requirement within the time designated, are counted as agreeing to the grant of this privilege. (Prussian law, sec. 18 ff; Bavarian law, art. 12.) A more extensive limitation of interested third parties applies in Prussia to estates in fee and entailed estates, where, under the legal hypothesis, the heirs of an estate in fee or of the entail are deprived of the right to oppose the acceptance of drainage loans. (Sec. 32 of the law.) Where there is in general no means of overcoming the opposition, results are hardly to be expected. In Prussia the officials can negotiate with the opposing parties for this purpose. (Sec. 22, par. 4, of the law.) But while the individual landholder, if he is greatly in debt, can generally make no use of the credit of the Landeskultur-Rentenbank, such undertakings are facilitated where a number of landholders are interested. By forming a corporation they can avail themselves of the credit of the Landeskultur-Rentenbank, for the obligations arising from membership in a public company or a corporate body are matters of public law, and take precedence over existing private debts. Therefore it is provided in the laws of Prussia (sec. 33), and substantially, also, in Bavaria (art. 9), and Hesse (law of 1890,

art. 3), that the Landeskultur-Rentenbank loans may be furnished to city and country corporations and public companies without mortgage guaranty. The legislation of Saxony also leads to the same result. For in the latter case all incomes to be paid to the Landeskultur-Rentenbank are entered in the register of landed property, with the amount of private debts already incurred. The consent of the mortgage creditors is needed except for the payment of such incomes as are earned on account of corporate adjustments of water courses or communal drainage and street works. (Law of 1861, secs. 4 and 5; law of 1874, sec. 4.)

In so far as there is no legal prior lien to cover the advance made by the Landeskultur-Rentenbank, special provisions concerning the limits of security are needed. In Prussia this limit is fixed at twenty-five times the income of the land tax, or one-half of the value of the real estate, which is ascertained by the Landeskultur-Rentenbank on the basis of agricultural or other special estimates. The increase of value of the real estate resulting from the enterprise may be taken into account, with loans for improvement proper. (For the purposes classified in sec. 1, par. 1, of the law.) Here the surety is considered as sufficient, if the loan is less than three-fourths of the original value, or one-half of the resulting total value of the real estate. That amount of the loan which does not fall within three-fourths of the present value, or within the amount of twenty-five times the income of the land tax, may only be paid out after the undertaking has been systematically performed. Section 8 of the law is to be referred to concerning supplementary loans for the com-

pletion of undertakings. Except when necessary for affording the prescribed surety, the Prussian borrower is not required to give the loan the exclusive right over earlier mortgages. This is prescribed, on the contrary, for the borrowers in Saxony (law of 1861, art. 65), in Bavaria (art. 7), and in Hesse (law of 1890, art. 4). The law of Saxony does not provide any special limit of security, while the other two States require security to one-half of the value of the real estate to be mortgaged.

3. *Special conditions on which credit is furnished.*—Loans will be made by the Landeskultur-Rentenbank either in cash or in annuities (*Rentenbriefen*). They are not recallable by the lender—unless the debtor be negligent, or the other legally established conditions of exceptional revocability are present; on the other hand, the debtor has a right to make extraordinary repayment, and he can perform such in cash or in annual payments. In Prussia the debtor must pay at least one-half per cent annually to the redemption fund. He must pay at least 4 per cent for drainage loans, in so far as the special provisions of sections 11–31 of the law are applicable to them. Within these limits the amount of amortization is established by agreement. In Saxony, by the law of 1888, the total payment of the debtor is fixed at 4⅔ per cent of the amount of the loan, of which 1⅓ per cent is used for redemption, so that the debt is liquidated in thirty-eight years. In Bavaria at least one-half per cent is to be paid to the sinking fund; and in Hesse, formerly 1 per cent, but since the law of 1836, three-fourths per cent annually. The annual payments to be made by the debtor are enforced everywhere by administrative compulsory proceedings.

4. *The control over the use of the money for a definite purpose and the maintenance of plans already carried out.*—Provisions of this kind are required only with regard to the undertakings of individual landholders. The guaranty for the proper use of the money in the case of corporate and communal undertakings lies in the constitution and organization of the borrowing institution; and so far as supervision is needed, this falls chiefly to the regular communal supervising authority, and not to the Landeskultur-Rentenbank or its organs. In Prussia, if the credit be sought by an individual business man, previous proof of his ability to use it and of the profitableness of the undertaking is expressly prescribed only in case the loan is desired for drainage improvements, and the special proceedings apply which are provided for this case by sections 10–31 of the law. The inquiry is then made by a special commission under the direction of the general authorities. The proof of the profitableness of the improvement is taken for granted if the borrower desires to avail himself of the legal provision whereby the increase of value to be attained as a result of the undertaking is to be taken into account in the estimate to be made by the Landeskultur-Rentenbank. Aside from these cases, the Landeskultur-Rentenbank is permitted to apply the provisions of the statute concerning the method of investing the loan. The Silesian statute prescribes, in section 10, that in all cases the request for a loan shall include a comprehensive plan of the projected undertaking, which shall give the time within which the undertaking is to be completed, as well as an estimate of the costs prepared by an expert. The control over the systematic execution and regular maintenance of the improvements is

very limited, according to the Prussian law. Aside from those cases where, in the interest of the Landeskultur-Rentenbank itself, such a control is necessary, supervision of drainage loans according to this provision is practiced only where a prior lien exists. (Secs. 7, 8, 9, 25, and 52, par. 4, of the law; and secs. 21 and 22 of the Silesian statute.) In Saxony all contracts for loans by individual landowners are first of all examined by the general commission with regard to the utility and profitableness of the undertaking. (Sec. 10 of the law of 1861.) Systematic application of the funds is controlled by the general commission, which is to deliver the loan to the borrower in installments corresponding to the actual progress of the work. (Law of 1861, sec. 9.) In Bavaria, a plan and estimate of costs are to be added to the request for the loan, and the Landeskultur-Rentenbank commission, which acts in the furnishing of the loan, investigates the profitableness of the undertaking, if necessary, by taking expert testimony. The use of the loan is legally supervised, as well as the maintenance of the improvement, to which the borrower is legally bound. (Arts. 3 and 13 of the law.) The Hessian law of 1890 does not contain special provisions in this direction. The loan can be recalled from the debtor if he does not use it for the general purposes for which loans may be furnished by the institution.

(3) Results and Criticism of the Landeskultur-Rentenbanken.

The results of these institutions are satisfactory throughout, and are generally known in the German Middle States, though but little in Prussia. Only four Prussian provinces

have established the Landeskultur-Rentenbanken on the basis of the legal grant, and of these the Silesian institution alone has reached a noteworthy stage.

This institution has made loans of about 3,500,000 marks during its eighteen years of existence; of these, more than half have been to the owners of entailed estates, for whom the Landeskultur-Rentenbank offers the advantage that the consent of the heirs and relatives is not required. If the majority of the provinces have stood aloof, this is to be traced in part to the fact that they regard the existing provincial auxiliary banks (*Provinzialhilfskasse*) and improvement credit (*Meliorationkredit*) as sufficient. The statute of the provincial auxiliary bank in the Rhine province has been so broadened as to extend the activity of the institution to the purposes indicated in the act of May 13, 1879. This, at any rate, may be regarded as a result of the Landeskultur-Rentenbank law.

The development of the institution in Saxony and Bavaria makes a far more favorable showing. In Saxony, the home of the institution, 18,855 loans had been made, with a total of about 28,000,000 marks. These were distributed as follows:

	Marks.
53 associative improvements of water courses	878,406
2,443 agricultural drainage and irrigation	12,486,067
609 local drainage and street improvements	14,554,706

In 1898 alone there was a capital investment of 2,640,336 marks, as follows:

	Marks.
Improvement of water courses	8,424
Agricultural drainage and irrigation	304,374
Local drainage and street improvements	2,327,538

In Bavaria the agricultural income improvement commission (*Landeskultur - Rentenkommission*) had loaned 4,183,832 marks up to the end of 1898. These loans were distributed among 611 improvement undertakings, as follows:

I.—The Borrowers: 1884–1898.

	Loans made.	Borrowers.	Amount.
			Marks.
Improvement companies	185	5,645	768,202
Communal unions (*Kommunalverbände*)	292	298	2,992,984
Other borrowers	134	139	422,646
Total			4,183,832

The total loans were distributed among 6,082 borrowers; the average loan was 688 marks.

II.—Purposes of the Loans: 1884–1898.

	Marks.
407 drainage and irrigation undertakings	3,110,685
78 river improvements, etc	566,319
6 real estate	12,888
65 improvements of fields, etc	113,290
49 road building, to improve farm properties	364,590
6 reforesting communal waste areas	16,060
Total	4,183,832

In Hesse the loans at the end of 1898–99 amounted to 2,266,600 marks, of which 921,100 marks were given to forty communes and companies, and 1,345,500 marks to individual borrowers.

The conclusion follows that the Landeskultur-Rentenbanken in their operation up to this time have fulfilled only a part of what was expected of them. The difference appearing between Prussia and the other German States may be neglected when it comes to judging the whole institution. For since the fundamental principles and

the conditions of credit of the Landeskultur-Rentenbanken in all states are in reality the same, the difference in result is to be traced chiefly to the fact that arrangements for public welfare in a smaller State, with its homogeneous conditions, are much easier to work out in legislation than in a large State. Thus, for example, the very fortunate manner and method by which in Saxony the Landeskultur-Rentenbanken and the general commission have been brought into cooperation, can not be imitated in Prussia without further development; because in the latter State the Landeskultur-Rentenbanken are provincial, and the general commissions are State institutions, and a general commission does not exist in each province. The fundamental idea of the institution is undoubtedly a sound and proper one. That larger results have not been obtained may be traced in part to the lack of familiarity with the law, which, like every innovation, is only gradually accepted by the rural classes. It may, however, be chiefly the security demanded from the borrowers which prevents a general application of the law. The heavy indebtedness already existing makes the credit afforded by the Landeskultur-Rentenbank unattainable to a great part of the landholders. An extension of the limits of the loan, so far as this is generally possible without endangering the safety of the institution, would not be sufficient to change this condition materially. Therefore, the only remaining way is that already considered earlier by the legislature, of giving the demands of the Landeskultur-Rentenbank the preference by law over private debts, whether in general or for defined and well-tested plans of agricultural improvement; e. g.,

drainage. An interference of this kind in the rights of the mortgage creditor can be justified, however, only when full guaranty is given that material injury to the interests of the creditor will not occur in the improvements to be made, that only profitable improvements will be undertaken, that the improvement is really made with the money loaned, and is regularly maintained after being made. The prerequisites for this, particularly a corresponding organization of agricultural technique, have not yet been realized, at least not in Prussia.

But attention must be drawn to the inconsistency of the treatment of corporate and individual undertakings. The laws assume the ability of public companies to discharge their liabilities, and therefore grant the credit of the Landeskultur-Rentenbank to these companies without further security. If, however, state supervision of public companies can prevent misuse of the credit privilege which would endanger the rights of the private mortgage creditor, then this supervision ought to be extended to the demands of individual landholders for improvement credit. If a tract of 1,000 acres in need of drainage belongs to an individual landholder who is greatly in debt, then the Landeskultur-Rentenbank is inaccessible to him, and the improvement must be delayed. If, however, the same tract comes, by division, into the hands of ten owners as deeply in debt, then these can form a public drainage company, and the mortgage creditor can not oppose the granting of a loan to them by the Landeskultur-Rentenbank. This confusion shows that legislation on the subject is still in process of change, and has not yet been brought to a state entirely free from objection.

VII.

THE GERMAN SAVINGS BANKS.

By Doctor Seidel.

[Article from the *Zeitschrift für die gesamte Staatswissenschaft*, 1908, pp. 58–107.]

(1) The Origin and Historical Development of Savings Banks.

The idea of establishing savings banks was, according to Malarce, propounded in 1611 by the Frenchman Hugues Delestre, who devised the "first plan of the French Mont de Piété, consecrated to God, which was presented to the Queen Regent, mother of the King and the Kingdom." Every wage-earner was to be allowed to make deposits which he might withdraw in whole or in part, as his need dictated. The depositor was to receive simple interest at the rate of 5.9 per cent, calculated according to the length of time the money was deposited. The repayments of deposits were to be made upon demand within a maximum period of two weeks. There was also to be connected with the bank a life annuity fund: "The Monts will receive money which they will pay out as life annuities at the rate of 3.7 per cent." This plan of Delestre, however, was never carried into execution.

The efforts of some philanthropists of Great Britain, who had the common welfare at heart, resulted in the further elaboration of this plan. Thus, in 1798, London witnessed the establishment of a bank in the form of a benevolent institution by a private company. In 1801 a

similar bank was founded by Priscilla Wakefield in Tottenham, near London. The following year Lady Isabella Douglass opened the Servants' Savings Bank in Bath, while in 1810 a bank was established at Ruthwell, Scotland, by Henri Duncan for the purpose of mitigating poverty. These became so prosperous that they led to many imitations in England. The Edinburgh Savings Bank was founded in 1814 by the Society for the Suppression of Beggary, and in 1815 at Southampton a silent partnership (*Stillorgan*) began to cooperate with the First Irish Bank (parochial bank).

In Germany the first savings banks were founded in the eighteenth century as a result of the efforts which, in the second half of that century, were directed toward the reform of the North German poor laws. "The Ducal Loan Bank" (*Die Herzogliche Leihkasse*) was established in Brunswick in 1765. Hamburg followed with a savings bank in 1778, which was the first to bear the name of "savings bank" (*Ersparungskasse*). A Versorgungsanstalt (charitable institution) which was organized in 1765 opened this bank as its "Ninth Independent Bank" (*Neunte selbstandige Kasse*). It was for the express purpose of profitably collecting small sums of money from the lower classes of both sexes, such as servants, day laborers, manual workers, sailors, etc., to whom an opportunity was thus given to save a little of their scanty earnings. At the outset it paid interest at the rate of 3.5 per cent, then 4 per cent, then 3.5 per cent again. It began to liquidate its affairs in 1814, but it was not until 1823 that its doors were closed, without, however, inflicting any loss on its participants.

The name of savings bank (*caisse d'épargne*) was given at the same time to a French insurance institution. In 1760 a society was organized aiming at the amelioration of the conditions of the poor. In 1786 Lavoisier proposed to the provincial assembly at Orleans the establishment of a life annuity fund under the name of "*Caisse d'épargne du peuple*," to be guaranteed by the Province. This proposition was not accepted. But soon after, in 1791, the National Assembly gave its sanction to a tontine which, on Mirabeau's suggestion, was designated as the "Bank of Savings and Benevolence" (*Caisse d'épargne et de bienfaisance*). This institution was not a savings bank in the modern sense of the word; but such a bank was provided for in the law passed on the 16th of February, 1799 (*24 pluviôse an VII*), which related to the organization of the Bank of France. Under the head of the business of the bank, this act stipulated that "a deposits and savings bank be opened in which all sums above 50 francs should be received, to be repaid at convenient periods. The bank should pay interest on these deposits and issue certificates payable to the bearer or his order." This stipulation, however, did not go into effect.

This system of savings banks carried the day in Germany and abroad. Hamburg was followed in 1786 by Oldenburg and in 1787 by Berne, Switzerland, where the administration established a "servants' bank" (*Dienstenkasse*) with a non-interest-bearing capital of 40,000 livres; in their wake came Geneva, in 1789, with a private institution; Kiel, in 1796; Göttingen and Altona, 1801; Zurich, 1805; Lauf, in Switzerland, 1806. The Basel Loan

Bank, which was established in 1792, branched out into a savings bank in 1809; St. Gallen followed in 1811; Schwyz, Aarau, and Neuchatel, in 1812; Karlsruhe, Sleswick, Baden, and Philadelphia, 1816; Glücksburg and Lübeck, in 1817; Berlin, Stuttgart, Brieg, and Apenrade, in 1818; Vienna, in 1819; Stockholm, in 1821; Venice, in 1822; Milan, in 1823, and so on.

Henceforth the extension of savings banks proceeded rapidly. At first they were fostered by legislative and administrative provisions, but their progress soon became due primarily to the growth of commerce and the reforms of the money and credit systems.

While in their origin most of the early savings banks, particularly of those in Germany, are to be traced back to the activity of philanthropically inclined individuals and benevolent associations and must be regarded as purely charitable institutions, their later development has proceeded on quite different lines. At the present day they are being opened by municipal corporations, and these assume the guarantee of the legal obligations of savings banks. The larger municipalities, the pioneers in this respect, were followed by smaller cities and commonwealths, boroughs, parishes, and villages, as well as by larger communities, particularly by the districts (*Kreisen*) and only exceptionally by associations and private persons.

It was owing to the district savings banks (*Kassen der Kreiskommunalverbände*) that the savings-bank system was advanced in Prussia. This was due to the fact that the districts (*Kreisen*) had the advantage over the small commonwealths in that they were in a more favorable

position to offer the security which is legally demanded from savings banks. The savings banks in the county (*Kreisstanden*) of the district of Schleusingen, which were established in 1831, must be regarded as the first district savings banks. Those of the Schweidnitz district followed in 1837; of the district of Heiligenstadt in 1838, and during the period beginning with 1840 and ending with 1874 the district savings banks of Worbis, Nordhausen, Weissensee, Ziegenrück, Heiligenbeil, Prenzlau with its four branches, Dramburg, Zielenzig, and Bielefeld were established. The real development of this kind of bank and of state supervision, however, began only after the year 1850, when the National Economic Association (*Landsökonomie-Kollegium*), then headed by Herr von Beckedorff, recommended the extension of district savings banks. The same recommendation was made by the Minister of Agriculture in an official circular of the 27th of April, 1850. At that time the second chamber of national representatives began to consider the matter. The commission which had been appointed to investigate the money and credit institutions of the country also investigated the conditions of the savings and loan banks. Its report was published on the 8th of May, 1851, and was followed by the ministerial decree of July 14 urging the establishment of district savings banks. These measures were of the greatest significance for the further advancement of public savings banks in Prussia, and greatly contributed to the high rank which the latter hold at present.

The number of savings banks which existed in 1840 amounted to 94, and their deposits to 20,000,000 marks; in 1850 there were 234 savings banks, with 54,000,000

marks of deposits; and after the lapse of another decade (1860) the number reached 471, with deposits amounting to only 151,000,000 marks. But in 1875 there were already 1,004 savings banks, with deposits of 1,112,000,000 marks; and in 1880, 1,190 savings banks, with 1,600,000,000 marks of deposits. And since then—

Year.	Public savings banks.	Savings deposits.
		Marks.
1902	1,334	5,266,120,189
1903	1,354	7,229,944,620
1904	1,374	7,771,933,248

Of the 1,374 public savings banks in the year 1904, 717 were municipal, 423 district or Kreis- und Amtssparkassen, 228 country savings banks (*Landgemeinde-Sparkassen*), and 6 provincial and state savings banks. To these are to be added 646 branches or subsidiary banks, as well as 2,556 collecting or receiving offices, and 190 associations and private savings banks. There was, therefore, a total of 4,766 savings-bank offices in 1904. These were distributed among 3,886 localities, which means that those cities, villages, estates, or dwelling places which formed a distinct part of a commonwealth were provided with savings banks. There was a savings bank for every 73.52 square kilometers and 7,734 inhabitants.

The distribution of the savings banks among the separate provinces of Prussia in 1904 was as follows: In the Rhineland, 245; Schleswig-Holstein, 193; Westphalia, 189; Hanover, 176; Silesia, 174; Saxony, 138; Brandenburg, 107; Hesse-Nassau, 83; Posen, 82; Pomerania, 82; East Prussia, 45; West Prussia, 44; Berlin, 3; Hohenzollern, 1.

The interest-bearing investments of the savings banks amounted in 1904 to 8,136,230,000 marks:

	Marks.
Municipal mortgages	2,948,700,000
Country mortgages	1,791,680,000
Securities payable to bearer	2,288,970,000
(*a*) Bonds of German Empire	152,410,000
(*b*) Prussian bonds	651,910,000
Promissory notes with security	14,440,000
Promissory notes without security	149,590,000
Bills	79,600,000
Loans on pledges (Lombards)	95,360,000
Investments with commonwealths, public institutions, and corporations	801,110,000
Other investments	66,780,000

Account must be taken of the fact that 411 of the 1,564 savings banks (including 190 associations and private banks) have more than three-fourths of their capital invested in mortgages.

Then there are the investments in securities payable to bearer (*Inhaberpapiere*), which constitute 26.9 per cent of the total investments. Unlike mortgages, securities can be easily disposed of; but the oscillation of prices on the exchange renders them too speculative a means for big investments unless the bank carries a sufficiently heavy reserve fund. There are 208 banks, of which 138 are private, which have no loans upon securities at all, while 249 (including 4 private) have from 30 to 50 per cent of their total investments in securities, 61 (5 private) from 50 to 75 per cent, and 11 (6 private) over 75 per cent. The Berlin Savings Bank is one of the 5 public banks last designated, and the ratio of its investment in securities is 78.9 per cent, a ratio exceeded only by that of a district bank recently established in Silesia (93.6 per cent).

The investments in promissory notes (*Schuldscheine*), with or without security, are of less significance, since in only 6 banks do they exceed 75 per cent, and in 8 their rate oscillates from 50 to 75 per cent; in 29 banks, from 30 to 50 per cent; in 56, from 20 to 30 per cent; while in 459 they are not even to be found.

Bills (*Wechsel*) nowhere form one-half of the total investment. In 5 banks they form from 30 to 50 per cent of the total; in 19, from 20 to 30 per cent; in 49, from 10 to 20 per cent; the general average in the whole state being only 0.98 per cent; 1,178—i. e., practically all the banks—refuse to accept them. The investments in pledges (*Faustpfand*) exceed one-half of the total investments in only 2 banks, and are nowhere over 75 per cent.

One hundred and thirty-two banks invested from 20 to 30 per cent, 27 from 30 to 50 per cent, 6 from 50 to 75 per cent, and 11 more than 75 per cent of their capital in other savings banks, public institutions, corporations, etc.

The reserve fund in all banks amounted to 515,686,-147.69 marks, or 6.64 per cent of the total deposits. Since the existence of the savings banks the common interests of the security associations (*Garantieverbände*) consumed 309,798,284.02 marks of the annual net earnings of the banks. The cost of management amounted, in the year 1904, to 13,221,716.92 marks, or 0.17 per cent of the deposits.

The other German Federal States show similar results.

According to investigations, the sum of the deposits in all German (including Prussian) savings banks at the beginning of 1880 amounted to 2,500,000,000 marks, and

	Date.	Number of books.	Books per 100 inhabitants.	Deposits in millions of marks.	Deposits per inhabitant.	Deposits per book.
1. Prussia:						
Total savings banks	1903	9,773,103	26.96	7,229.94	199.44	739.78
	1904	10,211,976	27 71	7,701 93	210 59	760 08
2. Belgium:						
(*a*) General (state) savings banks	1903	1,681,031	24.07	587.99	84.18	281.54
1. Postal bureaus		407,417	5.83	58.14	1.17	487.60
2. Other places		16,694	.24	596.18	85.34	283.18
(*b*) Four city savings banks together		2,105,148	30.14			
3. Denmark:						
Total savings banks	Mar. 1, 1903, to Mar. 31, 1904	1,291,569	51.15	863 68	342 01	668 63
4 England:						
Postal savings banks	Nov. 20, 1902–3	9,403,852	22.19	2,981.16	70.36	317.01
Other savings banks		1,689,617	3.99	1,071.82	25.30	634.36
Total		11,093,469	26.18	4,052.98	95.65	365.35
Postal savings banks	Nov. 20, 1903–4	9,673,717	22.61	3,026.12	70.71	312.82
Other savings banks		1,704,766	3.98	1,066.53	24.92	625.62
Total		11,378,483	26.59	4,092.65	95.64	359.68
5. France						
National savings banks (postal)	1903	4,143,888	10 64	894 37	22.95	215.83
Other savings banks		7,362,073	18.80	2,550.22	65.45	348.10
Total		11,469,961	29 44	3,444 59	88 41	300 31
6. Italy:						
Postal savings banks	1903	4,951,971	14.91	695.48	20.94	140.45
Ordinary savings banks		1,788,167	5.38	1,303.54	39.24	728.98
Total		6,740,138	20.29	1,999.02	60.18	296.58
7 Netherlands						
Postal savings banks	1903	1,035,527	19 27	186 19	34 58	179 82
Savings banks		377,354	6.95	142.76	26.29	378.32
Total		1,412,881	26.02	328.95	60.57	232.82
8. Norway						
Savings banks	1903	742,912	32.46	392.71	171.60	528.61
	1904	766,375	33.32	410.78	178.61	536.00
9 Austria						
Postal savings bank	1903	1,694,702	6.34	153.12	5.73	990.35
Other savings banks		3,464,715	12.96	3,713.27	138.86	1,071.74
Total		5,159,417	19 29	3,866 39	144 59	749 80
10. Russia:						
Postal savings banks	1904	1,798,018	6.72	167.23	6.25	93.01
Total savings banks	1903	4,855,996	3 38	2,269 66	15 14	486 11
11 Sweden:						
Postal savings banks	1903	570,686	10.93	61.29	11.74	107.40
Other savings banks		1,314,119	25 17	597 94	114 52	455 02
Total		1,884,705	36 10	659 23	126 26	349 70
Postal savings banks	1904	570,249	1 84	62 14	11 85	110 33
12. Hungary:						
Postal savings banks	1903	484,834	2.44	44.86	2.26	92.53
Other savings banks		907,136	4.50	1,295 80	65 16	1,428 15
Total		1,391,970	7.00	1,340.66	67.42	963.14

to about 5,500,000,000 marks in 1892, while to-day the deposits in the 2,800 German public savings banks consist in round numbers of 12,000,000,000 marks. There are about 17,000,000 savings account books in use—that is, 1 book for every 3 or 4 persons, and about 200 marks of savings deposits for every inhabitant.

Since the wealth of the German people is estimated at from 150,000,000,000 to 200,000,000,000 marks, that of the German savings banks constitutes about 7 per cent of this total.

With regard to the savings-bank system, Prussia ranks foremost in the civilized world; and in this connection the statistician Evert published the following interesting figures[a] for the years 1903 and 1904:

(2) The Conception, Purpose, and Legal Nature of Savings Banks.

Savings banks are institutions for centralized management of deposited and interest-bearing sums of money. Their purpose is to foster the economic instinct in the people by holding in security their surplus money and paying interest upon it, and particularly to enable the lower classes to increase their own property, and in times of prosperity, lay up for a rainy day. The accumulation of enormous sums of money from small savings, which would otherwise be spent, exerts a moral influence upon the population. They also assume the functions of credit institutions, which, like banks, are of importance in adjusting on a small scale the demand for, and the supply of, capital. Technically speaking, savings banks are deposit

[a] *Wörterbuch der Volkswirthschaft*, Bd. II, Jena, 1907.

banks, but they are radically distinct from all other banking institutions in that they are not run primarily for gain. Their purpose is rather exclusively humanitarian, striving as they do to advance the economic conditions of the middle and lower classes. This humanitarian mission of the savings banks is particularly emphasized in recent times, so much so that care is taken that as considerable a part as possible of the accumulated savings deposits be available as credit to those classes that have made the deposits.

These economic functions of the savings banks are stated in the statutes of most of the German savings banks, or in the state regulations. Thus, the Prussian savings-bank regulation of the 12th of December, 1838 (sec. 4), which is still in force, reads: "It must be remembered that the institution is intended primarily for the needs of the poorer classes, in order to extend to them the opportunity for depositing small savings. Any deviation from this policy must be avoided."

This humanitarian purpose, though not expressed in the acts, is also found in the Motiven, or declarations, of the recent laws, as, for example, in the savings-banks acts of Baden and Alsace-Lorraine. (For Baden, ministerial decree of September 23, 1880.)

Quite recently the activity of the savings banks has been subjected to severe criticism from this same humanitarian point of view; it was claimed, on the basis of statistical data, that the savings banks were being transformed into deposit banks for the use of the middle classes and the capitalists; that they neglected the interests of the small in favor of the big depositor, and that

they were being managed principally for the sake of profits.

This matter has been carefully looked into by Professor Rauchberg, of Prague, who presented the results of his investigation in a treatise entitled, "The Savings Bank Question" (*Sparkassenfrage*), which first appeared in the *Oesterreich Rundschau*. These are the questions raised in the treatise: (1) Were the savings banks really losing sight of their original aim, and was that aim to be impressed upon them only through state interference? and (2) Which was the more expedient: To force them back into the old rut, or let them develop in their newly adopted course?

I shall first treat of the parts of his discussion with which I agree in general. Other points which have already been elucidated in the previous pages will be referred to later.

The savings banks, Professor Rauchberg maintains, by no means perform the function of an almshouse for those proletarians who are in need of such an institution. This is evident from the average deposit, which has been growing from year to year. But the objection made against the savings banks on the ground that they are exclusively at the service of capitalist interests is by no means valid. The classification of deposits according to the amounts of individual deposits reveals the fact that, as regards numbers, the small depositors are in the majority, but that the greater part of the total is composed of large deposits. Furthermore, this is not wholly a recent development; it has existed for many years, and was first brought to light by the general savings-bank statis-

tics in 1882. The savings bank of Bohemia examined its ledgers as far back as to 1830, and found that even in 1840—that is, before the enactment of the Austrian savings-bank regulation—the greater part of the total deposited consisted in amounts of more than 1,000 crowns. The same is true of most of the other savings banks. The attempt of the framers of the Austrian savings-bank regulation of 1844 to deny the right of the use of the savings banks to "the opulent who could otherwise invest their money profitably," convinced them that this provision even at that early day was contrary to the actual existing conditions. The economic state of the country was then chiefly that of a natural economy, there being no thrifty and well-to-do working class, while the middle class had to apply to the savings banks even more than now, a measure to which they were compelled by the violent convulsions of the public credit and by the absolute lack of banks and mortgage-credit institutions. The participation of large depositors is therefore not a recent phase, but has always been one of the characteristic features of the Austrian as well as of the German savings-bank system.

It is indeed true that, owing to the constantly increasing deposits of the wealthier classes, the average deposit is swelled from year to year. This is not to be explained, however, by the assumption that the number of "capitalist" depositors is on the increase, since, as a rule, the average of new deposits is lower than the average of the previous deposits. The cause lies rather in the additional deposits of those who already have bank accounts and in the transfers of accrued interest to the deposit

books. It is particularly to these transfers that we must look for the multiplying factor. It is clear that the increase of the total deposits is due not to the alleged tendency of the banks to favor the "capitalist" interests, but to the increment of capital among their old clients. Moreover, thanks to the accrued interest, the repayments of most savings banks generally exceed the deposits. This is a sorry proof that the depositors of those savings banks are either unable to make new savings or they no longer trust them to the banks. There is therefore no ground whatsoever to abuse the savings banks for their "capitalistic" tendencies. Besides, it is difficult to perceive in what respect the large depositors harm the small ones, while, on the other hand, there is no doubt that the greater the units of transaction the smaller the coefficient of expense.

It is also claimed that the large deposits are unstable; that they compel the savings banks to keep larger cash reserves to make more short-time investments, which yield a smaller revenue, and thus lower the interest rate on the small savings deposits. This objection holds true of those amounts of floating capital which enter the savings banks only incidentally at times of low interest in other fields. Unwelcome deposits of this kind, however, can be easily detected and rejected at any time, since almost all savings banks are allowed by their statutes to reject, or to request the withdrawal of, deposits. On the whole, the larger depositors have shown themselves by no means more unstable than the smaller ones. When the Czechian agitation resulted in the run of 1903 on the Bohemian savings bank, which was directed and managed

by Germans in Prague, the large depositors behaved with great discretion. The repayments, which in the period from the 20th of February to the 19th of March, 1903, exceeded the deposits by 27,700,000 crowns, were made mostly to lesser depositors. A close scrutiny of the oscillation of deposits reveals the fact that there is always a counterbalance between the large and small deposits. At times of economic prosperity wages rise, and small deposits are predominant, since the large capitalists then find investments in commerce and industry more remunerative. Contrariwise, economic depression brings large idle funds into the savings banks and checks the small savings.

The large and small deposits represent, as it were, the compensatory swings of a pendulum, that secure the regular movement of the savings-bank clock. The demand for discrimination between the small and large depositors by paying higher rates of interest to the former can be supported only by socio-political considerations. "Glad as I should be to have the small depositors favored in this way," Professor Rauchberg remarks, "the habit of doing business with 'the bearer' would be an obstacle." The anonymous nature of the savings-bank book would enable the larger depositors to obtain similar favors by distributing their deposits among several accounts. Yet this anonymous nature of the savings-bank book is of such sovereign importance that it can by no means be abandoned. Moreover, the savings banks would be put at a disadvantage by less trustworthy competitors, as well as by investors in securities, who would not equally discriminate in the interest of the small depositor. Professor

Rauchberg is quite right in maintaining that the premium policy of the savings bank is the most feasible expedient for favoring the small depositor.

The nature of savings banks, as institutions created for the public interest, explains why in most countries, and particularly in Prussia and France, they are founded chiefly or exclusively by commonwealths.

In some countries the banks are established by the State itself, as is the case in Oldenburg, in the principality of Lippe and Reuss j. L., in Brunswick, in Belgium, Luxemburg, Roumania, Servia, and Russia.

The postal savings banks have been introduced during the last fifty years. In France these were state institutions, designated as national savings banks (*caisses nationales d'épargne*) to distinguish them from the banks described above, which were called private savings banks (*caisses d'épargne privées*). We shall subsequently discuss these banks, which now flourish to an important extent in European and non-European countries.

Savings banks must also be regarded as institutions subject to public law (*öffentliches Recht*). They can be established only with the consent of the State, and their business is run under regular state supervision. Their constitutions vary either according to the specific nature of their origin, or, in general, according to the administrative law of the particular State in which they exist. In Germany they are only separate departments of the general wealth of public corporations, viz, of village communities, cities, districts, and similar commonwealths. In other countries they are independent aggregates of wealth, regarded as legal persons, and the right of pub-

lic control is limited. This is, for example, the case in Baden, "where the savings bank, which is guaranteed by the community and which receives its statutes from the State, is neither a private nor, inasmuch as its property does not belong to the commonwealth, a public institution. It is rather a public institution vested with the right of a legal person." The laws of the 25th of December, 1869, and of the 20th of August, 1893, relegate the savings bank of the Wiesbaden Landesbank to a similar position. The Alsace-Lorraine savings banks became independent public institutions with these same rights of a legal person (*Rechtsfähigkeit*) by the enactment of the law of the 14th of July, 1895 (supplemented by the law of the 12th of May and the 14th of November, 1897). In consenting to guarantee the savings bank, the commonwealth enters into the relations of a bondsman to his debtor.

The general legal position in Prussia is as follows: The nine old provinces are still subject to the regulation of the 12th of December, 1838. The Government attempted to apply the principles of this regulation to the other provinces, especially through the influence of standard statutes. The provisions of the regulation apply to public savings banks only. The question, which of the savings banks are to be considered, according to the Civil Code, as public and magisterially indorsed savings banks, is one belonging to national law (*Landesrecht*). (*Motive zum BGB. IV. S. 1114, Protokol IV, S. 762 f.*) Prussia recognizes as public savings banks those which are either conducted by a corporation which is approved by public law or whose obligations are guaranteed by such a corpora-

tion. (Ministerial decree of the 27th of July, 1900, Ministerial Bulletin, p. 255; of the 19th of October, 1898, ibid., p. 233; and of the 14th of November, 1899, ibid., p. 234.)

Unless otherwise provided, the public savings banks in Prussia are social institutions and not legal persons. They are subject to the general legal provisions of public control, and the same state authority supervises both the corporation guaranteeing the savings banks—the guaranty union—and the savings bank founded by that union. (Compare sec. 53 of the law defining the competence of authorities (*Zustandigkeitsgesetz*), of the 1st of August, 1883.) Some writers maintain that, although a savings bank is not a legal person, its funds are not the property of the guaranty union; that these funds are composed of the deposits of individuals, and must be repaid on their demand. The guaranty unions, it is alleged, are the managers, while the depositors are the owners of the savings-bank funds, which, according to section 6 of the savings-bank regulation, must be kept separate from the other state (or district, etc.) accounts. This, however, is not a sound assumption, for the provisions of the regulations, especially sections 3 and 8, which are cited in support of this view, and which deal with the safety to be afforded to the depositors and the taking of loans on the part of the city, are provisions of public law. As such they can not influence the fundamental conceptions of private law. The depositors can not be the owners, because they do not form an association (*Verein*) or company (*Gesellschaft*) of any legal status whatever. Consequently there remains only the guaranty union as the owner or the legal person. The deposit constitutes only

a loan to the institution which is represented solely by the guaranty union.

According to the provisions of public law, the right of a legal person can be given to the public savings banks only by an imperial decree. This applies also to those associations (*Zweckverband*) which perform the function of savings banks and are vested with the rights of public corporations. (Sec. 128, L. G. O.)

But although in the prevailing opinion, which is in accordance with legal authority (decision of the imperial court of the 25th of April 1892, "Savings banks," p. 234, judgment of the superior court of the 4th of July, 1904), the public savings banks in Prussia are not regarded as legal persons, yet in the business world they are treated as such. For example, in the rubric of charges the bank is designated as the plaintiff; it is also customary to name it as mortgagee, while in fact it is the municipality that is the plaintiff or the creditor. It is, therefore, more proper to have the municipality draw up mortgages in its own name with a postscript "Savings bank fund." (Decisions of the Kammergericht of the 12th of April, 1904, and July 4, 1904.)

In accord with this practice, a recent decision of the imperial court of December 1, 1906, declared that although municipal savings banks are not legal persons they may be the legal representatives of the Commonwealth. The banks are nothing else than municipal institutions, and their wealth is only a separately managed fund of the total wealth of the community. This leads to the conclusion that when action is brought by or against a city (or other municipal) savings bank it must be considered

as raised by or against the municipality in question. The court of appeals erred, therefore, in refusing to uphold an action against the municipal savings bank on the ground that the defendant was incapable of acting as one of the parties. The court erred also in its dissent from the view that the "savings bank administration" should be considered as the legal representative of the real defendant or municipality. The idea of regarding the burgomaster as the sole legal representative of the community is too narrow and misconceives the nature of legal representation. It is erroneous to maintain that the legal representation of an individual, against whom no proceedings can be instituted, and especially of a corporation, must lie wholly in the hands of one person. Besides the burgomaster or city magistrate, there may be other public officers performing specific functions and possessing full right of legal representation. In our case the bank administration is by far the most natural legal representative of the municipality.

3. The Deposit of Money of Wards and Minors (*Mündelgeldern*) in Savings Banks.

Since the establishment, administration, and supervision of savings banks are matters of public law, the legal provisions of Prussia, in compliance with article 99 of the Statute of the Civil Code, remain unchanged, although amendments may at any time be added (art. 218, ibid.). As regards their business, the savings banks are subject to the provisions of the Civil Code.

The provisions of section 808, as well as of section 1807, paragraph 1, No. 5, and of sections 1809, 1810, of the Civil

Code, concerning the deposit of the money of wards and minors, are placed expressly without the sphere of national legislation by section 99 of the statute law.

Section 1807 of the Civil Code provides that money of wards and minors can be deposited in a domestic public savings bank, if the proper authority of the federal state sanctions its acceptance of such deposits. According to article 75, Section I, of the Prussian Executive Orders (*Ausführungsgesetz*) the grant of such qualifications is to be issued by the president of the provincial council with the concurrence of the president of the provincial court. This privilege, however, can be revoked at any time. The grant and the revocation are to be published in the official newspaper.

The essential prerequisite of the bank applying for the right to accept the money of wards and minors consists in that it must be a public bank. The question as to which savings banks are to be regarded as public is to be decided by national law, since, apart from the provisions of section 808 of the Civil Code concerning credentials (*Legitimationspapier*), and the provisions of the Civil Code relating to the deposit of trust funds, article 99 of the law of the Civil Code stipulates that the provisions of national law remain unaffected. There is no doubt that, according to the savings bank regulation of the 12th of December, 1838, only those are to be considered as public savings banks which are guaranteed by a quasi-public association (*Verband des öffentlichen Rechts*), i. e., municipal savings banks exclusively. This view has been supported by the minister of the interior. Nevertheless, in speaking of the minutes of the second commission for

the revision of the Civil Code, contained in volume 4, page 763, Mr. Schneider[a] maintains that this practice does not take into consideration the question whether the imperial law might proceed beyond these limits and include as public those savings banks which have an unlimited membership, as, for instance, the cooperative societies (*Genossenschaft*) which are open to new members.

The second prerequisite consists in the common grant which must be issued by the presidents of both the provincial council and the provincial court. This is prescribed because of the different points which must be carefully considered in the selection of the proper bank. The further provision, that this privilege once conceded can be revoked at any time, is one not overlooked by the Civil Code. Such a stipulation is necessary in view of the fact that the conditions which favor the extension of the grant may at some time undergo a radical change. In accordance with this principle, the above-mentioned ministerial decree urgently insists that, in case a bank is rendered unfit to accept deposits of the money of wards and minors, the grant must be recalled by the presidents of the designated institutions. The grant as well as its recall goes into effect only after announcement in the official newspaper.

Thorough and careful investigation of the conditions of the bank applying for a grant must be made. It is my opinion that the greatest attention must be paid to the business administration of the bank, and its sol-

[a] Schneider, *Das Bürgerliche Gesetzbuch und seine Nebengesetze nach ihrer Wirkung im Geschäftsbereiche der öffentlichen Sparkassen*, Hanover, 1899, s. 10.

vency. Significance must be attached particularly to the nature of the audit system, to the methods of checking the accounts, etc., as well as to the question whether the bank is connected with the provincial or district branch (*Unterverband*) of the German Savings Bank Association (*Sparkassenverband*). The revision of books and accounts periodically undertaken by the latter undoubtedly furnishes greater assurance of regularity of management, and, therefore, of solvency.

If the latter condition is complied with, there is no ground, in my judgment, for withholding from the savings bank the right to accept money of wards and minors. For the municipality is always the chief factor in the security of the savings bank, and it is quite evident that by leaving the matter of proper qualifications to the judgment of the authorities, the legislator intended that the above-mentioned condition of guaranteeing the property of wards and minors should be sufficient for granting to public savings banks the right of receiving such deposits. It would be against the ratio legis were the provision in question to be used as a means of imposing on the savings banks duties which are perhaps desirable and expedient, but which can not legally be demanded, since I do not believe that the state should have the power of unlimited interference with the rights of the savings-bank administration. No rigid rule, however, can be laid down, since the conditions in individual savings banks are exceedingly various and complex. In the natural competition of these banks with cooperative societies (*Genossenschaften*) and other institutions, the situation of the former became precarious. But the deposits must be secure under any

circumstances, so that, as far as can be foreseen, there should be no need of resorting to the Guarantee Communalverband. If these requirements are satisfactorily fulfilled, no bank can be deprived of the right of accepting the deposits of wards and minors. It has been suggested that the grant should be—as in a few cases it was—issued only upon the stipulation of the altered bank statutes that the net earnings should be used solely in the interests of the lower classes, i. e., for socio-political ends. This measure, however, overshoots the mark, and is contrary to the spirit of the law.

Provisions similar to the Prussian executive order of the Civil Code were inserted in the statutes of other German federal States. Article 109 of the Bavarian executive orders provides that "minors can make savings deposits * * * in a public savings bank * * * without the consent of their legal representative." Section 36 of the Saxon executive orders reads: "According to section 1807, paragraph 1, No. 5, of the Civil Code, those public savings banks are qualified to receive deposits of the funds of wards and minors whose regulations have been approved by the Minister of the Interior, and hereafter the minister's approval of the regulations of a public savings bank ipso facto renders the latter qualified to receive deposits of the money of wards and minors. The Minister of the Interior can at any time recall his decision." Finally, the executive order stipulates in article 33, paragraph 2: "It lies within the competence of the Minister of Justice to designate those public savings banks which are qualified to receive deposits of the money of wards and minors according to section

1807, paragraph 1, No. 5, of the Civil Code." This provision was later simplified in section 63*c* of the regulations of the 6th of September, 1906: "The Baden savings banks which are guaranteed by the municipalities and for which the law of the 9th of April, 1880, makes provision, are qualified to receive deposits of the money of wards and minors."

The following states have enacted similar provisions:

Hesse (art. 125 of the law concerning the execution of the Civil Code, of the 17th of July, 1899), Mecklenburg-Schwerin (sec. 232 of the 9th of April, 1899), Mecklenburg-Strelitz (sec. 230, V. O., of the 9th of April, 1899), Saxe-Weimar (sec. 244 of the executive orders of the Civil Code, of the 5th of April, 1899), Oldenburg (sec. 23 of the executive orders of the Civil Code, of the 15th of May, 1899), Brunswick (sec. 102 of the executive orders of the Civil Code, of the 12th of June, 1899), Saxe-Meiningen (art. 28 of the executive orders of the Civil Code, of the 9th of August, 1899), Saxe-Altenburg (sec. 125 of the executive orders of the Civil Code, of the 4th of May, 1899), Saxe-Koburg-Gotha (art. 50, sec. 3, of the executive orders of the Civil Code, of the 20th of November, 1899), Hamburg (sec. 73 of the executive orders of the Civil Code, of the 14th of July, 1899), Alsace-Lorraine (sec. 142, No. 2, of the executive orders of the Civil Code, of the 17th of April, 1899).

4. Private Savings Banks.

In addition to the public savings banks, there are in Prussia numerous private savings banks—that is, savings banks whose obligations are not guaranteed by any

quasi-public corporation. As independent business companies, they are subject to the general supervision which is exercised over private companies, but not to special state supervision. The provision of the savings bank regulations and laws are, therefore, not applicable to private savings banks, except to those which, complying with section 22 of the Civil Code, and with the special statute (*Munstersatzung*) of state supervision, are subject to the provisions of the regulation of 1838 (Ministerial decree of the 23d of May, 1900).

Private savings banks owe their origin chiefly to mutual-benefit associations (*Gemeinnützige Vereine*) or to private individuals. Under this head are classed the factory savings banks (*Fabriksparkassen*) founded for the use of the factory or of any large business house. These banks are for the most part established by the employers themselves in order to encourage economy among their workers, to bring their interests into more intimate relation with those of the enterprise, and thus to advance the latter. Frequently, however, these banks are instituted by workingmen themselves and are managed without the participation of entrepreneurs—as, for example, the so-called Laborers' Savings Unions or the Union Savings Banks (*Arbeitersparvereine* or *Vereinssparkassen*). According to their special functions, these institutions are known as rent, endowment, old-age, etc., savings banks. The school and children's savings banks, though of a private nature, are closely connected with the public savings banks. These we shall consider separately.

Most of the Italian savings banks have been developed by mutual benefit associations (*Gemeinnützige Vereine*),

whose members provided guarantee certificates (*Garantiescheine*) and served without compensation. The shares (*Aktien*) issued by them are constantly redeemed. The reserve fund serves as a guaranty.

"The First Austrian Savings Bank" (*Erste Österreichische Sparkasse*) was established in 1819 in Vienna, by an association (*Verein*) the members of which were regarded either as the founders or as the patrons, according to their respective contributions, ranging from 300 to 100 florins minimum, to the security fund. Every member was pledged to cooperate in forwarding the purpose of the association.

In Switzerland the savings banks are for the most part private enterprises of stock companies, associations, etc., though, of course, there are other institutions which are guaranteed by the municipalities or by the State.

After the enactment of the provisions of the Civil Code in Prussia, a number of private savings banks submitted themselves to state supervision, and thereby gained legal competence. A special statute (*Mustersatzung*) was drawn up for these banks in 1899 by the Minister of the Interior. Such statutes exist also for the public savings banks. They were framed as a result of a consultation with the provincial savings-bank associations and passed by the lord lieutenant (*Oberpräsident*) with the authority of the Minister of the Interior. These statutes, which are substantially the same for all provinces, provide for the proper organization and management of the savings banks, for state supervision, as well as for the legal relations between the depositors and the savings banks. In

Silesia there is a special statute for each administrative district, whereas Hesse-Nassau has none at all.

5. Economic and Socio-Political Significance of Savings Banks.

Although the origin of savings banks may be traced back to about a century and a half ago, their great economic significance has attained general and unquestionable recognition only during the last few decades. Even as late as the middle of the nineteenth century, the *Times* in England and the *National* in France took issue against the savings banks. The objections against them were that they tended to raise the standard of life of the depositor even when his savings were not adequate to secure him a higher position; that they loosened the bond between the creditor and the debtor, and thus fostered individualism; that they depressed credit and withdrew capital from useful enterprises; and, finally, that they did not ameliorate the conditions of the poor, who must first be given the means to save.

Recently, however, the idea has become quite universal that individual saving is an important remedy for social evils (*Schäden*) and a quite indispensable virtue in economic life. With the exception of those who oppose saving as a matter of principle—or to give it in the words of an international labor assembly in Marseilles, "The worker who saves is a traitor"—the governments and the political parties of all civilized states fully agree that the encouragement of thrift is one of the chief economic functions of the State, and is one of its best means of alleviating poverty, of augmenting the wealth of the vast lower

strata of the population, and of securing the economic independence of the greatest possible number. Saving and its encouragement are effective in averting the growth of social democracy. The practice of self-denial and the possession of savings exert a favorable influence on the individual and protect him from communistic ideas. Economy is as consciously aimed at in the sphere of consumption as in that of production. In this lies the enormous significance of saving, which must be regarded as the beginning of economic civilization. As long as man lives, in the strict sense of the word, from hand to mouth, and does not provide for the next day, he finds himself retrograding economically, while, on the other hand, the more the individual allows his economic activities to be influenced by considerations of the future the higher does he stand on the ladder of economic civilization. In his study on "Thrift," Domela Nieuwehuis shows very aptly that the great historical significance of the transition from the hunting and fishing stage to that of agriculture consists for the most part in the fact that, owing to the advantage of the long period between sowing and harvest over hunting and fishing, where the exertion is followed by immediate enjoyment, agriculture leads to prudence and economy.

Although saving must be considered a good means for mitigating poverty, the meagre sums that can be laid aside are in general inadequate to afford sufficient aid in case of need, of sickness, or of old age. At this point may enter the various forms of life-insurance institutions, which in reality pursue the same purpose of saving. The German State has recently pursued this line of

activity by compelling the workman to insure himself against disability, old age, sickness, and accident. So far, this state compulsion has had as little effect on the deposits of the savings banks as similar attempts of the English fraternal societies and trade unions. That the latter did not restrict the deposits of the savings banks has become evident from the steady development of the English postal savings banks.

Like the savings banks, the cooperative societies (*Genossenschaften*) have greatly contributed to the encouragement and the progress of saving, though this end was regarded by them as secondary to the availability of credit which the accumulation of capital affords.

We have seen wherein lies the economic significance of the savings banks. But the question as to how far the banks are interested in that phase must be deferred to a later occasion.

6. Savings Banks and Insurance.

Insurance and savings banks, as indicated above, pursue two similar ends: The accumulation of capital for the purpose of redeeming losses or of securing economic subsistence. We have already shown the enormous development of the savings banks since the second half of the eighteenth century. The economic importance of insurance institutions is not less. The latter are much older than savings banks. Their first traces are to be found among the Romans, in the associations of persons of the lower classes (*collegia temniorum*), which, in return for the initiation and monthly fees, paid to the survivors of their members a certain burial insurance. Later the system

expanded in various economic ways and has been steadily progressing. In this connection may be noted the recent foundation of a German bank which is based on principles of mutual benefit, namely, "The People's and Pensions Insurance Bank" at Düsseldorf (*Volks und Pensionsversicherungsbank*), whose insurance premiums will be lower than those of other banks which were established as business associations.

Of all kinds of insurance, life insurance in the form of capital insurance (*Kapitalversicherung*) payable in the case of death, or at the end of a certain period, is in a large measure identical in purpose with savings banks. The accumulation of small savings, the annual premiums, provide sufficient capital for security against diminutions in income, which may occur with a decreasing or lost earning capacity, or as a result of the death of the supporter of the family. Insurance capital may also be used to secure and improve the economic conditions of more than one person.[a]

This form of saving contains an element of compulsion and has a great educational value, because the material issue of the insurance, i. e., the realization of the capital designated in the policy, is attained only after a long series of savings—that is, after the regular payments of the annual premiums. If the policy holder does not pay the premiums—that is, if he ceases to save—he suffers losses and does not attain his object. The paid-up premiums either lapse in favor of the insurance company, and the insurance contract becomes void, or the insurance is maintained for an amount smaller than the original one, the

[a] See "*Die Sparkasse*," 1907, No. 601, p. 139, etc.

so-called "reduced policy"; or else the paid-up premiums are returned to the policy holder. In none of these cases, however, is the real purpose of the insurance ever attained. Owing to its compulsory method, a life insurance institution is characterized as a compulsory savings bank, and this same compulsory feature makes it superior to savings banks. At the same time insurance grants greater protection to the individual, for not only does it, like the savings banks, return the money received together with the accrued interest, but it also assumes the risk of the death of the policy holder before his premiums cover the amount of his insurance. For the company pays the full insured amount, notwithstanding the shortness of the time that the policy has been held by the deceased. The prompt payments of premiums—that is, the regular savings—afford, therefore, greater assurance of the attainment of the purpose of saving than the savings banks. The latter assume no risk of the premature death of the depositor, and repay only the actual deposits and the accrued interest.

On the other hand, mere savings in the savings banks may have undeniable advantages. Beneficial as the feature of compulsory saving connected with life insurance may be for certain individuals, it renders saving more difficult and may become very burdensome under certain conditions; since, in order to prevent loss, the premium must be paid despite any adverse turn in financial circumstances of the policy holder. The latter may thus be compelled to inflict privations upon himself and his family, and sometimes even to borrow money at high interest in order to pay the premium. Furthermore, he may, in

spite of all efforts, be compelled to give up the insurance, or to be satisfied with a reduction of the policy, and thus not completely attain the end desired. Finally, insurance is rendered much more difficult for those who are advanced in years, because of the necessity they are under of paying very high premiums; and again insurance is sometimes absolutely denied to persons in an ill state of health. It is such inconveniences as these which make the possessors of small capital prefer the savings bank. The person of limited means is reluctant to tie up his savings completely, and, in case of emergency, submit to the necessity of borrowing on his policy at a high rate of interest, in order to pay his premium. It is for this reason alone that the savings banks are particularly preferred, since numerous observations show that the rate of interest paid by banks has no attraction for the small depositors, in whose interest the savings banks were chiefly created.

In an article on "Savings Banks and Life Insurance," contained in No. 601 of the *Sparkasse* (volume of 1907), the question was raised as to what rôle was to be played by the life insurance institutions in the apparently favorable development of savings banks. The conclusion arrived at was that the former were not to be relegated to the background. Savings banks and life-insurance institutions do not mutually exclude one another; each have their own peculiar advantages, and there is room for both. The article brought to light the fact that, notwithstanding the enormous growth of savings banks, life insurance has also developed and is continuing to advance. The amount of the capital-insurance policies (*Kapital-*

versicherungen) of the German life-insurance companies at the end of 1904 was as follows:

	Marks.
27 stock companies	4,397,742,289
18 mutual companies	3,940,020,439
Total	8,337,762,798

Of this sum 92.2 per cent was insurance payable at death and 6.8 per cent endowment insurance. To this capital insurance, which is composed of larger sums, there is to be added 842,079,240 marks of the so-called "people's insurance"—that is, the policies for smaller sums—and, further, 270,004,138 marks for insurance in the military service, and also an amount of 18,039,439 marks of annual income-insurance policies (*Rentenversicherung*).

To the insurance carried on by large companies is to be further added the insurance managed by the "small mutual insurance associations"—that is, by the numerous Versorgungskassen, viz, the death, endowment, pension, widows', sickness, and similar insurance institutions. There are about 4,000 of these offices in Prussia alone, and about 2,000,000 persons insured. The property of the companies amounts to about 59 and a half million marks; the value of the outstanding life policies to over 311 million marks. Finally, in addition to this private insurance, which rests on free compact, there is in Germany the compulsory old-age, invalid, accident, and sickness insurance institutions, whose wealth at the end of 1904 amounted to 1,160,405,468.44 marks, and the number of insured persons to 13,756,400.

It was these statistical facts that led the author of the above-mentioned article to the conclusion that savings

banks and insurance companies are not mutually antagonistic in performing their very important social functions. This conclusion can, I think, be extended further, both institutions supplementing one another, so that the public savings banks may be brought into alliance with the insurance companies, in order that one institution may support and further the activity of the other. In accord with this idea it has been proposed to make the savings banks the agents of national insurance.

Such a combination of the savings bank and insurance systems, to be specially undertaken in the form of an old-age and invalid savings bank, as a first step toward general national insurance, has been recently propounded in a very practical manner by the official of the First Austrian Savings Bank, Prof. Robert Mully von Oppenried, of the Gremial Commercial School of the Vienna Merchants' Association.

According to the proposed system, the deposits which are made in the savings banks at convenient times and in convenient amounts, shall be at the disposal of the depositor at any time—in case of death to be repaid to his heirs—while the accumulating interest on the deposits at the rate of 3½ per cent will form a surprisingly favorable old-age income, which can be withdrawn sooner or later. An old-age income may be secured even if the depositor keeps his fund in the bank for only three months, so that a complete consumption of deposits once made becomes impossible. In this way provision may be made not only for old age, but also for all the other vicissitudes of life. The interest on the deposits is to be the premium, so to speak, by which a laborer, small handworker, etc., secures

for himself a pension for old age, or even before old age in case of premature disability, as well as a fund on which he can draw in times of need.

As was already observed, the small depositors generally attach little weight to the interest paid. They do not save 20 marks in order to receive 70 pfennigs interest at the end of a year, but solely because they realize that eventually they may be in need of the money. They consider the savings banks merely as trustworthy custodians of their money. Now, according to Prof. Mully von Oppenried, if the interest be left with the bank till the approach of old age—assuming it to be at the age of 60—the results of the saved pfennigs, though depending upon the age of the depositor and the sum deposited, would be astonishingly favorable. Professor von Oppenried constructed a table of deposits of 100 crowns each, which technically represented double insurance, i. e., income insurance and 100-crown death-insurance policies.

Assuming the interest at the rate of 4 per cent to be permanently foregone by the depositor, Table I shows that for a deposit of 100 crowns, made by a person at the age of 50 years, an annual income of 9.14 crowns will be paid to him after his sixtieth year throughout the remainder of all his life. A person of 30 years of age will secure an annual income of 33.29 crowns; a 10-year-old child, an income of 95.9 crowns. According to Table II (3½ per cent) a depositor of 50 years of age will, after his sixtieth year, receive annually 7.35 crowns; a person 30 years old, 23.43 crowns; a 10-year-old child, 59.63 crowns. Later deposits increase the capital and income according to the actual age of the depositor. It is, of course, understood

that the capital, as well as the income, diminishes by withdrawals; but the latter can never be completely consumed if a deposit has been at least three months in the bank. The small interest which accrued during that short period will, after the sixtieth year has been reached, be the permanent source of income.

According to Table II, the acquired income can be drawn in correspondingly smaller sums, as invalid income, before the sixtieth year, or in significantly larger amounts if postponed until after the sixtieth year.

A person who had saved enough to secure at his sixtieth year an income of 1,000 crowns may, in lieu of this, draw after his fifty-sixth year annually 420.60 crowns, i. e., 42.06 per cent, or, if he waits till his seventieth year, an annual income of 3,280.7 crowns, i. e., 328.07 per cent of the total sum. It must be admitted that this is a clear and simple form of savings, and that the income of accumulated interest tends to encourage thrift and economy.

Concerning the methods of these income savings banks, the author suggests that an account be opened with the depositor at his first deposit, and a deposit book made out, stating his full name and the place and date of his birth; these facts are to be certified by some sort of document at the time of making the first deposit.

In this book, which contains capital and income columns (except for the income column, the book is quite similar to the ordinary savings book), the deposits and withdrawals are entered. The interest is neither capitalized for the holder of the account, nor paid out, but is transferred to or deducted from the income column, which presents the mathematical probability of the income beginning with

the sixtieth year, calculated in Table I, according to the actual age of the holder of the account at the time of the deposit or its withdrawal.

Since in this scheme the insurance premiums are not composed of the deposited capital, but of the interest on that capital, and since in reality the interest and the income to be received by the depositor after his sixtieth year are at par, Prof. Mully von Oppenried sees no reason why withdrawls of deposits should not be allowed. On the contrary, he would favor them as much as possible, in order to encourage deposits. The possibility of withdrawing the money, he believes, "will render the means of life insurance accessible not, as formerly, only to the well-to-do, but also to the smallest depositors. The latter can not devote their savings to a definite purpose, no matter how commendable, but must have them at their disposal in case of need."

According to these propositions and calculations, an alliance of the savings banks with life insurance institutions would become possible and practicable. The question as to how this plan would be put into operation by the German public savings banks and the private insurance companies, would require a special examination in all its details. It would be particularly advantageous, if the plan were adopted by the above-mentioned German Vereinsversicherungsbank, which was established on principles of mutual benefit. Since its insurance premiums would be especially low, the policy holder would obtain a higher income in a shorter period of time than he could obtain from other insurance companies which have greater

expenses and are, therefore, forced to demand higher payments.

Mention might also be made of the bill which was suggested by the plan of Mully von Oppenried, and which was introduced by the Austrian deputy Stein and his associates, for the purpose of connecting a general income insurance institution with the postal savings banks.

Furthermore, similar institutions aiming at the combination of savings banks and insurance have already been established, viz, the first General Association of Official Employees (*Allgemeiner Beamptenverein*) of the Austro-Hungarian Monarchy; the "Lower-Austrian Life, Income, and Property Insurance Institution;" the "Royal Saxon Old Age Income Bank" (*Königlich sachsische Alters-Rentenbank*), in Dresden, etc.

The association of the Belgium savings bank (caisse générale d'épargne et de retraites) with the insurance institutions goes so far that the law of the 9th of August, 1889, extends to the bank the privilege of entering into life insurance compacts with laborers, and of pledging the repayment of the money after a definite lapse of time, or else, in the event of death, before that period.

7. Practical Arrangements (*Einrichtung*) of Savings Banks.

In order to achieve their ends, savings banks must be established in such wise that (1) they render the opportunity for saving as easy as possible; (2) that they encourage savings; and (3) that these savings be secure.

Next in importance are the records of deposits and withdrawals, their form and legal right. Each depositor

must be provided with not more than one savings-bank book, in which the deposits are entered, the interest computations added, and the withdrawals deducted. There are also deposit coupons (*Einlagescheine*), which, when cut out of the book, can be easily identified if matched with the stub (this is the practice in Jever). The depositor must sign his name on the cover of the book.

The minimum amount which may be received as a deposit and upon which interest is paid is to be fixed as low as possible, in order that the purpose of the savings bank may be perfectly fulfilled. In Germany it is ordinarily fixed at 1 mark and in France at 1 franc. In order to afford opportunity for the deposit of small sums, savings stamps and savings-stamp books have been introduced. Stamps of 10, or even of 5 pfennigs, are sold in numerous and specified places, which are designated as "pfennig" or "groschen" savings banks, corresponding to the English "penny savings banks." These stamps are to be attached to the stamp book, which is furnished without charge and is provided with a definite number of blank places. After all the blanks are filled the stamp book is either exchanged by the savings bank for a savings-bank book, or the amount is entered in the book already issued, and interest is calculated from that date.

The pfennig savings banks are merely collecting offices for the savings banks proper. They may or may not be opened by the latter. In Germany their formation was begun in Darmstadt by the merchant, W. Schwab, who founded a Pfennig Sparkasse in 1880 at his own risk and independently of the local savings bank. During the

first year 48,000 and the second year 58,000 marks were taken in. Since 1881 the local savings bank (*Ortsparkasse*) of Bürgstadt, Saxony, kept stamps for sale in a number of places, and issued savings-stamp books free of charge. Other savings banks soon imitated this plan and began to issue 50-pfennig and even more valuable stamps. The introduction of this system in the public savings banks gradually banished the private pfennig savings banks.

According to the Prussian regulation, the maximum amount of deposit is to be defined by the statutes of the bank and not by the law, in order that "the special conditions of the locality" may be taken into consideration by the guaranty association. In case too wide a margin may imperil the bank or the guaranty association, it is the business of the supervising authority, or of the authority approving the statutes, to institute such changes as they may deem necessary.

The guaranty association itself, according to the Prussian ministerial decree of the 4th of October, 1892, is allowed a larger maximum deposit than other depositors. But the savings banks reserve the right to reject such deposits, or to give notice of their withdrawal within a definite interval.

The payment of interest begins after a period of time variously determined upon, mostly after the first of the following month; or, if the money was deposited before the 15th, after the 15th of the same month. Similarly, on withdrawal, the interest ceases on the 1st or the 15th. There are banks, however, which begin to calculate the

interest from the day of the deposit. At the expiration of a year, the interest which has meanwhile accrued and has not been withdrawn, is ordinarily transferred to the capital, and in its turn begins to yield interest. Deposits exceeding a certain amount bear a lower rate of interest. This is done with the view of encouraging small deposits as much as possible and of restricting the use of the bank by the well-to-do. For the same reason, some banks offer premiums, besides the interest, to persons belonging to certain classes, as handworkers, servants, etc. These are the so-called premium savings banks (*Prämiensparkassen*). Again, certain advantages are offered if regular minimum deposits be made within a stated time. There are various other devices in vogue, all tending to the same purpose.

The chief object of the premium is to induce saving. Thus, for example, Prince von Stolber-Wernigerode, of the Wernigerode and Ilsenburg savings banks, gives a premium of 6 marks at the end of each year to servants. This ground for awarding premiums is often combined with others. Thus, since 1882, the savings bank of the district of Teltow distributes 3 per cent of its surplus interest as savings premiums (up to 30 marks in an individual case) to servants who have served with the same master for the last five years, and have had deposits in the district savings bank. The parish savings and loan bank (*Spar- und Leihkasse*) of the community of Angeln presents, out of its surplus, a savings-bank book with a deposit of 10 marks to every child of the parish that is confirmed, on condition that within the next two years an equal sum shall be deposited from its own savings.

A further development of premium savings banks is shown by the old-age savings banks. The principle is as follows: A part (usually from one-fourth to one-half of the interest-bearing deposit of the saver, is transferred to a special account; the accrued interest on this part is annually increased by additional sums of the surplus of the savings banks. This deposit is regarded as savings until the owner reaches a certain definite age (ordinarily 55 years). In this manner, the purpose of providing for old age is more easily attained than by the simple premium system. As a rule, only deposits of laborers, servants, and commercial and industrial clerks are accepted by the old-age savings banks.

The old-age savings departments have so far found relatively little adaptation in the public savings banks. For the most part they remain benevolent institutions, which large industries establish for their laborers as factory or union savings banks, although some city savings banks, as, for example, Breslau and Frankfort-on-the-Main, have also introduced them. It is desirable, however, that for the benefit of their depositors, the rural and the town banks should develop this useful institution on broader lines. The objection advanced by the management that the business of the bank must have reached a certain stage before it can sacrifice some of its surplus without endangering its solvency, applies naturally in the same degree to the simple premium banks.

In view of the elasticity of the market interest rate, the Prussian savings-banks regulations made no provisions concerning the amount of interest to be paid on deposits,

but laid down general principles. According to the latter, the interest rate is to be fixed so that:

(*a*) The interest and the compound interest on the deposits shall be covered by the interest which the savings bank realizes from its capital; and

(*b*) Above the interest to be paid to the depositors, the bank shall have a surplus to defray the cost of management, and the loss of interest, entailed by holding in reserve a necessary cash fund, as well as to accumulate the ordinary reserve fund. The interest to be realized by the savings banks is to be computed according to the general money market, which must, of course, take the local "economic conditions" into consideration (in the eastern provinces and in the predominantly agricultural districts, the interest is ordinarily higher than in the western and industrial localities). The interest rate is then fixed by statute according to these conditions, a certain margin being allowed in case of emergency. Interest reductions must never be retroactive. (Prussian ministerial decree of the 20th of April, 1888, Ministerial Bulletin, p. 100.) A reduction below 3 per cent requires the consent of the supervising authority.

The interest rate on deposits will thus be regulated by the current interest rate on loans. The difference between these must be sufficient to defray the costs of management of the bank, and to secure at the same time a premium for risk (*Risikoprämie*). On the average, a difference of ½ per cent is generally adequate for this purpose. It can be somewhat lower perhaps for mortgage loans, while for personal loans it will have to be fixed somewhat higher. In case of its proper administration, i. e., of proper invest-

ment of its funds in various securities, the bank will find this average difference between the deposit and the loan rates sufficient for the maintainance of a reserve fund and for annual surpluses, since the increments of the accumulated interests themselves yield new interests by participating in the business of the bank.

Professor Rauchberg justly believes that the validity of the objection so often raised against the savings banks that their administration is governed by the desire for profits, can best be tested by investigating the difference between the savings-bank interest rates on assets and liabilities. The general tendency of the rate of interest for the last decade, Professor Rauchberg observes, has not been very favorable for the savings banks. Ours is a period of diminishing interest rates, an era of financial revolution. Savings banks can not possibly pay to their depositors more interest than they themselves obtain from their investments. Owing to the limited sphere of sufficiently safe investments to which the savings banks are restricted, no administration would be able to raise its income above the general level of interest rates. Furthermore, as regards the Austrian savings banks, Professor Rauchberg's statistics show that during the last few years their surpluses have diminished considerably, and that almost all institutions competing with the savings banks realized a higher rate of interest. The advantage of other banks and associations over the savings banks lies in their ability to make short-period investments, which enables them to follow more closely, and especially to better avail themselves of, the fluctuations of the money market, both in their investments and in paying interest on their

deposits. Thus it comes about that when the general rate of interest rises, they offer higher interests on deposits, and are, therefore, able to attract considerable funds which would otherwise flow into the savings banks.

In order to enable a wider class of people to gain access to the savings banks, it is necessary that numerous receiving offices should be established and kept open, if possible, every day at convenient hours. The institution of such offices, however, is difficult in rural districts, where there are few qualified to manage them. But it has been demonstrated that the opportunity for saving must offer itself, since this is the only means of rendering the great masses of the population accustomed to regular saving. A plan has been recently devised, therefore, proposing that small savings to the amount of from 50 pfennigs to 4 marks be collected once a week by a savings-bank messenger, who shall issue receipts by means of savings stamps to be attached to special books, containing 52 blank spaces. At the close of one year 1.7 per cent interest would be paid by the savings banks on the accumulated deposits, and the stamp books would be exchanged for savings-bank books, to which further deposits could be added or from which savings could be withdrawn. In this manner a collection system would be combined with the savings-stamp system.

This scheme was suggested in Berlin by August Scherl, the proprietor of the *Berliner Lokalanzeiger*, who wished to introduce it on a large scale in our local savings banks. The collection plan, which was not new, he combined in an original manner with the idea of savings

premiums. The interest of 1.7 per cent on the weekly deposits, which come from the sale of savings stamps before being entered in the savings-bank book, was not to be paid out to the saver, but to be aggregated into larger sums and, at the close of the year, be apportioned as premiums among the depositors.

Scherl's plan has been much discussed in Prussia, and was finally rejected on the ground that it contained an element of lottery. But the collection of small savings deposits has been recommended to the Prussian savings banks by the decree of the Minister of the Interior, issued on the 4th of August, 1894. This system has been introduced in several cities of South Germany, as Karlsruhe, Mainz, etc., and is to be found also in Frankfort-on-the-Main. The plan is generally the same everywhere; the only divergence lies in the practice of computing the time for which the interest is due.

The idea that the savings bank must offer the opportunity to the saver hardly needs any proof from an economic point of view. It might be safely prophesied that after the collection system has been properly organized and operated for some time it will be adopted in more cities and towns. But because of the great expense involved it seems impracticable under present conditions to have it applied to the country districts and sparsely populated localities. The cooperation of the postal service, of which we shall speak in the subsequent pages, would be more expedient and successful.

Small amounts are paid out by the savings banks immediately on demand, but the repayments of large sums are made after given notice, the length of which, in

some banks, varies with the amounts. The banks are accustomed, however, to make immediate repayments if possible.

The Prussian savings-bank regulations have prescribed no definite period of notice for withdrawal of deposits, but have made provisions to the effect that small amounts are to be repaid at once, and that the period of notice for large deposits be conditioned by the sum to be withdrawn. The supervising authority must approve the statutory period of notice, and may demand its change whenever necessary. The savings bank must never give up its right to demand a period of notice. (Ministerial decree of the 27th of August, 1898, Ministerial Bulletin, p. 155.) It has also the right of requesting the depositor to remove his savings within a reasonable period of notice.

Two weeks' notice is the general practice in France. In critical times, as in the case of a run, the banks are protected by the "safety clause" (*clause de sauvegarde*) of the 9th of April, 1881, which provides that "in case of great stringency, decrees may be issued by the council of state, authorizing the savings banks to make repayments of 50 francs minimum at fortnightly intervals."

General legal provisions prescribe terms of limitation for stipulated interest which becomes due. A period of four years is fixed by section 19 of the Civil Code. But this statute of limitation is not applied to the savings banks, as it is diametrically opposed to the fundamental idea of savings deposits. Yet provision is made for such cases when the depositor has for a long time held no relations with the bank.

According to the Prussian savings-bank regulations, all further payment of interest on savings deposits ceases if it becomes uncertain who is entitled to receive it; but there is no definite term of limitation at the expiration of which the bank may appropriate the deposit. Some statutes aptly provide that if a savings-bank book is not presented to the bank for fifty years the deposit should, after proper public announcement, be turned over to the Guarantee Union.

The use of "closed savings books" (*gesperrte Sparbücher*) is also current. These secure to the depositor or to a third party a definite sum to be received at a certain time or upon a certain occasion. (*Remboursements-différés* in France.) The depositor foregoes the right to withdraw the deposit at his discretion, and the savings bank promises to make repayment only upon the event provided for or after the lapse of the stated period. In this case the functions are merely those of dowry, wedding, rent, tax, confirmation, military service, etc., savings banks, and render special banks for these purposes superfluous. At the same time they may act as insurance institutions, being especially related to those which satisfy all particular purposes of insurance. The system of "closed bank books" has not as yet become popular even in Prussia, though it is quite evident that their use is spreading. From 1894 to 1898 the number of such books rose from 28,573 to 44,005; then in following years it reached consecutively 51,385, 65,116, 82,741, 99,152, 114,452, and finally, in 1904, the number was 131,875.

Losses are to be defrayed by a reserve fund which, after deducting the cost of management, is made up of the surplus interest obtained by lending the deposited capital.

The rate of 10 per cent of the liabilities is regarded in Prussia as the minimum reserve fund. (Ministerial decree of the 16th of November, 1877.) Still it is recommended that after the reserve fund reaches 5 per cent of the liabilities, only one-half of the further surpluses shall be added to the fund, while the other half is to be used for extraordinary needs. (Ministerial decree of the 19th of March, 1880; 2d of April, 1888; 6th of December 1889; and the 19th of November, 1891.)

The ministerial decree of the 4th of February, 1901, permits the banks to use their reserve funds to cover exchange losses (*Kursverluste*) as long as these funds do not fall below 5 per cent of the liabilities. Then, according to the ministerial decree of the 27th of April, 1905, only one-half of the sum of both the surplus earnings and the interest of the reserve fund must be added to the latter. If the reserve fund has reached 10 per cent, the interest may be carried entirely to the surplus.

In France the reserve fund is fixed by the average amount of the annual expense of management. The remaining surplus is employed according to the purpose of the bank for the benefit of the depositors. (Compare also sec. 15 of the Baden savings-bank law of the 9th of April, 1880.)

As the case is all over Germany, the savings banks in Prussia may, upon the consent of the president of the provincial council, use for public purposes those surpluses which must not go to the reserve fund. The president

can withhold his consent only when backed by the district committee.

The savings-bank regulations do not define what is meant by public purposes. It is the custom of the authorities, however, to use the surplus not for paying taxes, but exclusively for extraordinary needs. (Ministerial decree of the 24th of August, 1847.) There are also many statutes that stipulate that the surplus can be used only for public and legally permissible ends, and not for purposes of mere luxury.

Besides the ordinary reserve fund, a special safety fund can be formed, in which the surpluses above the regular reserve fund are saved for later use. A so-called "exchange balance fund" (*Kursausgleichungsfond*) is also customary for the purpose of balancing the surplus accounts. The gains on the exchange (*Kursgewinne*) are added to this fund, which must also make good the exchange losses (*Kursverluste*). (Ministerial decree of the 28th of February and the 17th of March, 1900.)

In many countries the savings banks are exempted from stamp taxes. According to schedule number 3 of the imperial stamp act of the 3d of June, 1906 (Imperial Code, p. 675), the German imperial stamp duty is not imposed upon the savings-bank books, which are mere acknowledgments of savings deposits, since they are neither intended nor suitable for negotiation, and are, as a rule, not payable to bearer. Similar exemption from the stamp law of the 31st of July, 1895, is practiced in Prussia; for according to schedule 58*c*, public savings banks are instituted for the common good and not for gain. Promissory notes (*Schuldverschreibungen*) made out to

the savings bank, either as mortgages or as personal promises, must pay a stamp duty of one-twelfth of 1 per cent of the debt. Certain documents used frequently in the business of the savings bank may be taxed by the bank itself. This privilege must be granted by the Minister of Finance and is subject to revocation. (Proclamation of the Minister of Finance, February 13, 1896.)

8. The Legal Nature of the Savings-Bank Books and other Legal Considerations in Respect to the Savings-Bank Business.

The savings-bank book is commonly issued in the name of the depositor. It serves as a receipt, as well as a certificate of the obligations of the savings bank (*Schuldschein*). The savings bank is the receiver, while the depositor is the giver of a loan. The book is different from a promissory note, however, in that the repayment of the loan (the deposit) is made only after satisfactory proofs of the identity of the receiver. It is a legal and redeemable paper (*Legitimations- und Präsentations-papier*), and the right to its ownership may be distinctly independent of the legal claim. (Judgment of the imperial court, 26th of June, 1885.) It is by no means a note payable to bearer which can become the property of another person even against the will of the depositor. This is a characteristic feature of circulating securities but not of certificates of savings deposits. The Prussian savings-bank regulations of the 12th of December, 1838, extend to the savings banks the right of paying a deposit not only to the actual depositor but also to anyone who lays claim to it in virtue of his possession of the savings-bank book. Pay-

ments to such persons release the bank from any further obligation. The bank must not investigate the legal right of the bearer to the book, since this would involve too great an expense; it reserves to itself, as the issuer of the book, the right of returning the deposit to anyone who may present that book. (Secs. 808 and 362 of the Civil Code.) The only protection against the loss of the savings-bank book through theft, etc., lies, therefore, in a strict and proper care of it.

There is only one exception to the above rule, and that is when a savings-bank book has been attached in court. Since the transfer of the book itself is not necessary for a voluntary surrender of the savings deposit, legal attachment of the latter is possible and permissible without attaching the savings-bank book. If an attachment issued by the proper court is presented to the savings bank, it has no right to pay anything to its former creditor (the depositor), even if he presents the book, nor to the one who attaches the deposit, for repayments must be made only on surrender of the book. Possession of the latter can be obtained, therefore, only by its direct attachment (*Zwangsvollstreckung*). Until this is done, the bank must comply with the order of the court.[a]

The attachment of the savings-bank deposit is not to be made in the same manner as in the case of securities payable to bearer (*Inhaberpapiere*), i. e., not by attaching the savings-bank book, but by first attaching the deposit itself and then, on this ground, demanding the possession of the book.

[a] The most important legal questions concerning savings-bank business are treated by Justizrat Doctor Harnier in the *Sparkasse*, No. 603, p. 219, 1907.

Lost or destroyed documents—including savings-bank books—according to section 808, paragraph 2, of the Civil Code, can be invalidated by a legal process if no other method is prescribed. Since the savings-bank statutes do not provide any other means of invalidation, the legal process (*Aufgebotsverfahren*) remains the only available method in Prussia. No. 15 of the Prussian savings-bank regulations of the 12th of December, 1838, requires the depositor, who has lost his savings-bank book, to report at once to the savings bank. "Lost savings-bank books" includes all cases in which the depositor has been deprived of the possession of his book in any way independent of his own will. (Judgment of the imperial court, 5th of May, 1887.)

The savings bank, according to the provisions of the regulations, must record the loss and, if it is proved that the book has been totally destroyed, issue a new book to the depositor. If the loser can not positively prove the destruction, the bank must delay its issue of a new book. If during the course of the quarter of the year in which the loss is reported, or by the end of the following quarter, the book is presented by another person, the savings bank must not refund the deposits, but forward the book to the proper court (*Amtsgericht*) and send written information of this proceeding to the one who presents the book as well as to the loser, with instructions to state their claims in the legal manner. The savings bank may make payments only when the book is presented again by the one who can prove his right to the deposit. If the time mentioned expires without the book having been presented to the savings bank, legal publication of the in-

validity of the book must be made. This process of invalidation is governed by the provision of No. 15e, etc., of the regulations, which is not repealed by section 808, paragraph 2, of the Civil Code; for, in so far as "no other method is prescribed," this proceeding is authorized by the above-mentioned general provisions. Another process may be provided by national legislation, as well as by the statutes of each bank. (Art. 102, par. 2, of the Civil Code.) Again, in section 1023, paragraph 2, the Civil Process Ordinance, in compliance with Article I, section 20, of the executive order of the imperial law of the 17th of May, 1898, makes necessary an insertion of a notice of the invalidation in the official paper, as well as a public announcement by means of placards on the court bulletin board, and finally establishes a minimum period of suspension of three months.

The legal nature of the savings deposit itself is not entirely settled. It is generally considered in the light of a loan to the savings bank. But the deposit does not conform completely to the legal nature of a loan, and is considered, therefore, as an irregular compact (*Vermehrungsvertrag*), depositum irregulare, in the sense of section 700 of the Civil Code.

The decision of the question as to whether savings deposited with cooperative credit societies (*Kreditgenossenschaften*) are to be regarded as loans or as "deposita irregularia," was, by the judgment of the Imperial Court, made dependent upon the condition whether the deposit was entered in the interest of both parties or predominantly in the interest of the depositor. If the association accepts deposits to meet its own needs for credit, and conse-

quently not solely in the interest of the depositor but also in its own, these deposits must be regarded as loans. This principle does not apply to public savings banks, for, as institutions for the general welfare, the latter have no need for credit, and issue loans only to an extent that is limited by the paid-in savings. They have, therefore, no interest of their own in the deposits, which are for this reason regarded as irregular (*depositа irregularia*). Only those amounts are to be considered as loans proper which are borrowed by public savings banks from other institutions in order to widen their own activities in a manner not contemplated originally, i. e., by assuming the functions of credit institutions. This is the case when the savings banks are acting as intermediaries between the national insurance institutions and the rural landowners. The banks of Hanover, Westphalia, and Hesse-Nassau, for example, borrow money from the national insurance institutions and public savings banks for the purpose of contracting loans.

Practically there is no serious distinction between a loan and an irregular deposit (*depositum irregulare*), for the provision of section 607 of the Civil Code that the article returned shall be of the same kind, quality, and quantity as that received is, according to section 600 of the Civil Code, also applicable to the depositum irregulare. The deposits do not become the property of the guaranty union, but are employed by this union for the benefit of the depositors and are paid back upon demand. The statutory declaration of January 21, 1873, is to the same effect. (Striethorst, *Archiv*, vol. 87, pp. 342ff, 347.) The funds of a municipal savings bank are accordingly not

the property of the city. The community (*Kommune*) has undertaken to act only as representative, and article 3 of the regulations, concerning "the safety to be afforded to depositors," withholds the assumption that the community must furnish no security for its funds. It is the manager but not the owner of the funds. The intent of article 8 of the regulations, concerning savings-bank loans to the city, is also against the idea of regarding the guaranty union as the owner, since the notion of lending money from the fund belonging to the borrower is contrary to the legal conception of a loan.[a]

We must now consider the question of savings-bank books of wards and minors.

Section 1809 of the Civil Code requires the guardian to deposit the money of wards and minors in the savings banks, and provides that the withdrawal of the deposit be made only upon the consent of the supervisory guardian (*Gegenvormund*) or the probate court (*Vormundschaftsgericht*). The preamble of the Prussian Executive Order of the Civil Code (sec. 232, ibid.) expresses a doubt as to whether the statutory provisions regarding the savings banks allow the latter to receive money of wards and minors (*Mündelgeld*) which must be deposited in compliance with section 1809. (Compare No. 14 of the regulation concerning the organization of savings banks, of the 12th of December, 1838.) The lack of such right, however, would render partially ineffective section 1807, paragraph 3, No. 5 of the Civil Code, according to which the deposit of the money of wards and minors must be made

[a] See Von Knebel-Doeberitz, *Sparkassen in Preussen*, Berlin, 1907, p. 114.

only in those public savings banks which are legally qualified to receive the same.

The provision of section 14 of the savings-bank regulations has already been discussed. According to this, the municipalities may include a clause in their statutes to the effect that the savings banks may refund deposits to the bearer of the savings-bank book without demanding proof of his legal right, and without further obligation to the depositor or to his heirs, except in case of an attachment before the deposits are repaid.

Those savings banks that act under this provision must introduce proper changes or supplements in their statutes. This does not require legal enactment, since the order can undoubtedly be issued as an administrative measure by the supervising authority. Assuming that the consent of the court of guardianship is gained, the question arises whether the repayment of the money of wards and minors can be made to anyone who presents the savings-bank book, or only to the guardian. According to the above-mentioned provision of the savings-bank regulations, the usual savings-bank books are identification papers (*Ausweispapiere*) in the sense of section 808 of the Civil Code, and the savings bank has a right to pay to anyone who presents the book. But the question is whether the same holds good of the deposits of wards and minors. This must be answered in the affirmative, since the provision of section 1809 of the Civil Code binds the guardian alone and not the savings bank. It is only when, in its statutes or in individual cases, the bank gives up its right to pay to anyone presenting the book that the consent of the probate court (*Vormundschaftsgericht*) or supervisory guardian becomes

necessary for withdrawals. This limitation is of no legal consequence, since it does not affect the general right of the savings bank to pay to anyone who presents the book, which still remains only an identification document. In view of the fact that no provision binds the savings bank to pay only to the guardian, the banks have a right, after securing the above-mentioned consent, to make payment to anyone who presents the book, and, as is frequently the case, even to the ward himself.

The right of the guardian to collect money ceases, and the need of the consent of the supervisory guardian or the probate court becomes unnecessary, with the end of the term of the guardianship. Nor is the consent of the probate court then necessary for the withdrawal of the money by the minors themselves or their heirs. The provision entered in the savings-bank book, that the consent of the supervisory guardian or of the court of guardianship is necessary for the withdrawal of the money, becomes void at the close of the guardianship, and the savings bank therefore proceeds to deal with the money of the former ward or minor as though the provision of guardianship (sec. 1809 of the Civil Code) did not exist. For that purpose the bank must be informed of the close of the guardianship by the probate court, which issues a certificate to that effect. Such was the import of the decision of the president of a provincial court on the 15th of March, 1902, in a case submitted by a savings bank. This decision recommended also that in order to prevent confusion (secs. 1885–1889 of the Civil Code) the provision of the Civil Code (secs. 1882–1884), which stipulates for

the closing of the period of guardianship, shall be inserted in the certificate of the probate court.

The insertion of the following or similar provisions in the savings-bank statutes is accordingly recommended: "The books which are issued in the name of wards and minors (it would also be advisable to add 'or of municipalities') should be distinguishable in form. Money entered in such books, as well as interest, can be withdrawn only by submitting a certificate that the probate court consents to this withdrawal, or by certifying to the termination of the guardianship. The money of municipalities can be returned only upon consent of the chairman of the district committee. The external features of such savings-bank books are to be determined by the district committee (in city savings banks, by the municipal council)."

To the same effect was the decree of the president of the Düsseldorf administrative council of the 23d of December, 1900, which holds savings-bank officials responsible for the proper fulfilment of the legal provisions regarding the repayment of money of wards and minors. But, although the savings bank must pay all damages caused by its neglect of the provisions in question, it is a matter for consideration whether the bank must suffer in case of its refunding the deposits to the unauthorized bearer of the savings-bank book who manages to submit the required certificate at the withdrawal of the money. The nature of the case demands, however, that repayment of the money of wards and minors be made with the greatest care, and that utmost advantage be taken of the authority of the bank to investigate the legal right of the bearer of such a book. It is also left within the competence

of the management to decide whether the protection of the bank and its officials requires that the savings book for the deposits of wards and minors should be provided with a special cover.

The latter arrangement seems to me very expedient and, as was already mentioned, it is permitted by the statutes. The safety of the deposits of wards and minors is best secured by the use of closed savings books (*gesperrte Sparbücher*) of a special form. Mr. Schneider advises the following heading: "Savings Book for Minors and Wards," then the ordinary imprint, and between or below these the following lines: "According to court certificate ..... is the guardian and ..... the supervisory guardian;" or, "No supervisory guardian is appointed." The names are to be copied by the bank clerk from the certificate of appointment bearing the signature and seal of the court and presented by the guardian.

If not vested with the right of a so-called "free guardianship," the guardian may, according to section 1810 of the Civil Code, deposit the funds of the ward in the savings bank only upon the consent of the supervisory guardian, which consent must be approved by the probate court. The bank need not find out, and it is a matter of no consequence to it, whether or not the guardian complied with his duty before making the deposit. The guardian is responsible only to the probate court, and can be brought to account only by that court.

In the Grand Duchy of Baden, where the ordinance of the Minister of Justice of July 1, 1899, rendered the municipally guaranteed savings banks qualified to receive deposits of wards and minors as prescribed in section 1807,

paragraph 2, No. 5, of the Civil Code, the administrative council of the City Savings and Loan Bank (*Spar- und Pfandleihkasse*) of Karlsruhe has, in view of the provision of section 1809 of the Civil Code, introduced the following rules:

1. The savings book issued for the deposits of wards made by the guardian in compliance with section 1809 of the Civil Code, is to be distinguished by the title "Money of Wards" printed on the cover.

2. On the first page of this savings book the following note is to be inserted: "Repayment of principal and interest will be made only upon the consent of the supervisory guardian or the probate court."

3. If this savings book is presented for repayment the management is to demand:

(*a*) Proof that the person requesting the payment is the guardian of the ward in whose name the savings book is made out, i. e., the guardian must submit the certificate of his appointment (Civil Code, sec. 1791), and, if necessary, offer proof of his identity.

(*b*) The written consent of the supervisory guardian or of the probate court for the withdrawal of the specified sum.

(*c*) In case of the consent of the supervisory guardian, proof must be submitted that the person consenting is the supervisory guardian of the ward in question; this latter proof is to be given by the presentation of the certificate of appointment of the supervisory guardian.

4. The foregoing provisions apply also to the previously issued savings books which are already in the hands of guardians.

5. At the conclusion of the guardianship the precautionary provisions (Nos. 1 and 2) are cancelled and the book is exchanged for an ordinary savings book. A written certificate of the probate court is necessary to prove that the period of guardianship has terminated.

6. The precautionary provisions (Nos. 1 and 2) as well as their cancellation are to be noted in the account book.

According to section 60 of the guardianship rules of the 5th of July, 1875, the probate court may order that securities (*Wertpapiere*) of the ward which are payable to the bearer be withdrawn from circulation. Under this provision it is the practice of the banks to invalidate also savings-bank books. (Year Book of the Decisions of the Council Court, vol. 3, p. 31; against this practice, see Eccius, *Preussisches Privatrecht*, sec. 233, note 15; Dernburg-Schulzenstein, *Vormundschaftsrecht*, sec. 858, p. 351.)

The provision for invalidating securities payable to bearer has become ineffective by article 176 of the introductory statute of the Civil Code. In lieu of that provision, the above-mentioned section 1809 of the Civil Code is strictly followed. According to article 210 of the introductory statute of the Civil Code, all guardians who perform their duties at and after the time the Civil Code goes into effect are subject to its provisions. This general provision, however, does not apply to savings-bank books which were invalidated before the above provision of the Civil Code was enacted. (Preamble to the Prussian executive order of the Civil Code, p. 232.) The significance of the invalidation as explained in article

75, section 2, of the Prussian executive order of the Civil Code, lies in the fact that the repayment of the money is thereby conditioned on the consent of the supervisory guardian or the probate court. The expediency of such a provision followed from article 99 of the introductory statute.

Notwithstanding the imperial legislative regulation, the invalidation of securities payable to order is made ineffective by the above-mentioned provision of the Civil Code. The guardian or the probate court must, therefore, in compliance with sections 1814, 1815, and 1817 of the Civil Code, resort to other methods of securing the safety of the money of the ward.

It was with this purpose in view that the special decree of the 27th of June, 1901, was issued to the lord lieutenant of Magdeburg by the Ministers of the Interior and of Commerce and Industry, and was approved by the Minister of Justice and Finance. Without considering article 75, section 2, of the introductory law of the Civil Code, this decree declared that although, according to the Civil Code, no legal importance is to be attached to the invalidation of the savings-bank book, it is recommended as more convenient that such invalidation should be revoked.

VIII.

BRIEF SKETCH OF THE HISTORY OF SAVINGS BANKS IN GERMANY.

By B. Breslauer.

It is intended here to consider primarily the historic development of German savings banks. The first institution in any way resembling our present savings banks was that which was known as the loan office of the Duchy (*herzogliche Leihkasse*), established in Brunswick in 1765. This institution, however, was established mainly for the purpose of lending out the moneys deposited with it at a moderate rate of interest in order to put some check, if possible, on the usury widely prevalent at the time. Another institution, therefore, the Ersparniskasse, founded in 1778 by what is known as the Patriotic Society in Hamburg, must be regarded as the first savings bank in the full present meaning of the term. Here we find clearly outlined, though in primitive form, the essential characteristics of our savings banks to-day. We see from clause 94 of its regulations that it was established "for the benefit of industrious persons of small means of both sexes, such as servants, journeymen, artisans, seamen, etc., in order to afford them an opportunity of acquiring some savings even by small installments, and of depositing securely at some interest the fruit of their toil, for their succor or dower." Then followed, in the year 1786, the establishment of the savings banks (*Ersparungskasse*) in Oldenburg i. G., which came still nearer

to present day conditions by restricting deposits to the savings of small people.

The development of savings banks as an institution continued, though at first very slowly, as the following particulars prove. An interval of ten years elapsed before another savings bank was established—that of Kiel, in 1796. After this, in the year 1801, the institutions in Göttingen and Altona were founded. Only after a long delay and various abortive attempts was an institution successfully established in Lubeck in 1817, the "Spar- und Anleihe-Kasse."

Almost all the savings banks owe their existence to the action of the municipalities. The Hamburg Institution, founded in 1778, was compelled to wind up in 1814, and in 1819 its place was taken by a fresh bank. The latter, too, owing to the inefficiency and out-of-date method of management, was destined to be short-lived. It was only by means of a radical reform in the Hamburg savings bank system that a viable institution was created. The latter was founded in 1827, and at the present day still exercises its beneficent activity.

The establishment of the Berlin savings bank in 1818 must be regarded as the next event of especial importance. It was founded on the initiative of the chamber of municipal deputies, with the guaranty of the municipality. By reason of the favorable rate of interest allowed by the bank its course of development was rapid from the outset. It was the first of all savings banks to establish paying-in offices (1846). The provisions of its by-laws that "the savings bank could only receive deposits from the residents in its own municipality," and "that when

the sum to the credit of a depositor reached a certain amount, namely, 1,000 marks, it should no longer carry interest," were widely imitated.

Soon after the founding of the institution in Berlin a more brisk development of the savings-bank system began. Savings banks arose in almost every part of Germany, and it would transcend the limits of this article to record the date of establishment and the development of each individual institution. Therefore only a few particularly important general facts and characteristics as they presented themselves in the largest German States will be briefly recalled.

In Prussia there were already 86 savings banks at the end of the thirties of the last century. Till then the State had only a general right of supervision over the savings banks. Not until 1838 were more specific and uniform regulations provided by the issue of an important ordinance, requiring all savings banks not established by a municipality to apply to the King himself for a concession, while in the case of municipal establishments the approval of the chief president of the Province was regarded as sufficient. To the chief president, in conjunction with the government presidents, was further allotted the task of keeping careful check on the business methods of all savings banks by means of surprise audits. These officials were furthermore empowered to require the filing of regular reports. This more rigorous State control was shown, if only by the comparatively rapid increase of the number of savings banks to 191, to be highly favorable to the development of these establish-

ments, although no perfectly uniform standards for them had yet been evolved.

Notwithstanding many difficulties during the following decade, this progress was still more pronounced, owing largely to the work of the Central Association for the Welfare of the Working Classes (*Zentral-Verein für das Wohl der arbeitenden Klassen*). In 1857 the number of savings banks in Prussia had already risen to 405.

Among the particularly important measures carried through by the above-named association, and which contributed to this very desirable development, were the general increase of the rate of interest, the awarding of premiums for savings to workmen, and the regular communication to savings banks of all desirable innovations in the savings-banks system.

About this time (1854–1860) the establishment of rural district savings banks, which had hitherto existed only on a small scale, was largely promoted by instructions issued by the competent ministries to the local Governments. The presidents were desired to do all in their power to further their establishment, in order to enable the rural population to enjoy the blessings of the savings-bank system in a larger measure.

The great progress made during this very period by the savings bank as an institution generally in Prussia is proved by some further figures from the year 1859, which relate to the preceding decade. During this period the number of savings-bank books had increased by about 46 per cent, the total of deposits had risen by no less than about 282 per cent, and, while in the year 1849 there was only one deposit book to every 62 inhabi-

tants of Prussia, in 1859 there was already one book to every 31 inhabitants.

The following decade saw a somewhat slower rise relatively, though still a considerable one. The forward strides taken by the institution in the years 1871–1875—the period following the war with France—were very large. As a result of this successful campaign the savings-banks deposits in Prussia rose to three times their previous amount, simultaneously with an increase in the number of establishments. In the years 1875–1879, however, there was a considerable falling off in the founding of savings banks, chiefly owing to the fact that this was the time when the Imperial Government first considered the plan of introducing the post-office savings bank into the Department of the Imperial Posts Administration. It was this intention on the part of the Imperial Government that led, in 1884, to the establishment of the General German Savings Banks Association (founded chiefly by the municipalities and rural districts), owing to whose exertions a post-office savings-bank bill submitted in 1885 was rejected. On the other hand, however, the work of the newly-founded association exercised an exceedingly favorable influence on the institution of savings banks, both in the Empire generally and particularly in Prussia, more especially during the first years of its existence, inasmuch as it was the aim of the association to facilitate the investment of savings-bank funds. The reason for this was that at the end of the year 1880 the number of the savings-bank offices—i. e., the various places where money could be paid in for deposit in the savings banks in Prussia—was 3,416, as com-

pared with 2,083 in 1881, and while the deposits at the beginning of 1870 only amounted to about 1,000,000,000 marks, this sum had in 1889 risen to 3,100,000,000 marks.

In the succeeding period, too, the methods of the savings banks were constantly progressive. It must be regarded as an important fact, in the history of the consolidation of the savings-bank system, that, on and after January 1, 1900, the Civil Code required all private savings banks throughout the Empire to be converted into institutions of a different character, with a view to their subjection to more rigorous control, i. e., into municipal savings banks, share companies, cooperative societies, etc. Furthermore, the above-mentioned Savings Banks Association directed its efforts toward securing a uniform distribution of savings banks or receiving offices in town and country.

In 1906 the Prussian Government submitted a bill to Parliament intended to restrict the investment of savings-bank funds in long-date mortgages, to the advantage of the Prussian and German government stock. This bill, however, did not meet with the approval of the Prussian Chamber of Deputies, the majority of which feared that in critical times, by a sudden sale of the gigantic amount of state loans in the possession of the savings banks, there might be risk of a great drop in the prices of these securities.

In Bavaria, the second largest German Federal State, the development of savings banks was comparatively rapid, which is chiefly attributable to the initiative of far-sighted State and municipal officials. The first institution was established in 1806 and with municipal guarantee.

When after the elapse of fifteen years the savings bank in Nuremberg was founded in 1821, other establishments followed in fairly rapid succession, so that at the end of the year 1837 there were already 64 savings banks in operation.

While the Bavarian savings banks during the first decades of their existence had placed their money with a state institution which allowed them a very favorable rate of interest—the sinking-fund establishment—they have, since the end of the forties of the last century, invested more and more in land mortgages. The main reason for this is that the Government in the year 1849 prohibited the sinking-fund from accepting the saving bank funds, because at critical periods, particularly in the year 1848, there was a positive run on the sinking-fund office. As furthermore many abuses had arisen, particularly owing to the fact that the savings banks were, on account of their favorable rates of interest, used to a continually greater extent by the better-to-do classes of the population, for which they were not primarily intended, the Government in 1848 promulgated a statute which remained in force for several decades. In this statute it was laid down that only the savings proper of certain classes of the population, namely, servants, apprentices, journeymen, factory workers, day laborers, and miners of every condition, could be deposited in the savings banks. The smallest amount accepted was fixed at 30 kreuzer, and the largest at 100 florins. Amounts beyond 1,000 florins ceased to bear interest, which was practically equivalent to a maximum limit. The results of these measures were excellent, as in the year 1855 the

depositors represented 3.9, in 1861 5.9, and in 1903 no less than 13.6 per cent of the population; and while the average amount possessed by each depositor in 1861 was 170 to 200 marks, it was 434 marks in 1903. Moreover, the exceedingly advantageous effect of the above statute is further proved by official statistics for the year 1898, according to which those small people represented 62.38 per cent of all saving persons. Thus the average amounts on deposit which, although they have constantly risen, are low in comparison with Prussia, prove that in Bavaria the savings banks strenuously endeavor to fulfill what is their real task, namely, that of being institutions for the poor man.

In the Kingdom of Saxony the first savings banks were founded in 1819. In 1821 there followed those of Dresden and Annaberg. Until 1840, however, only 16 additional institutions were established. The following decade, owing to the brisk educational activity of several associations with aims of public utility, witnessed a highly gratifying improvement in the savings banks department. From 1841 to 1850 no less than 44 new institutions sprang up. By 1904 this number had risen progressively to 329 institutions, with 2,675,617 savings-bank books, so that there was one savings-bank book to 1.67 inhabitants, an exceedingly favorable showing. To this development the introduction of the saving-stamp system, which will be later referred to, and which took place in 1881 in many banks, contributed to a very considerable degree. The Saxon establishments likewise invested by far the greater part of their funds in mortgages; in the year 1903 the proportion of

capital invested on such security was no less than 82.82 per cent of all savings-bank funds.

In Württemberg the first establishment was founded in 1816 in Stuttgart, under the name of the "Württembergischen Sparkasse," upon the initiative of the General Beneficent Association. According to the by-laws only those belonging to the poorer classes were allowed to become depositors, and as a further privilege they were allowed to use the post-office free of charge for their transactions with the savings banks. On the principle of these banks provincial savings banks were then formed, which served mainly for the rural population, and municipal savings banks were created. In the twenties 15 establishments were founded. In the year 1904 the number of savings banks amounted only to 64, but the number of paying-in offices had already risen to 1,829. In contrast to Bavaria, however, Württemberg, despite the outset which had promising beginning, shows an ever greater falling off of small depositors; for while in the year 1893 the book accounts beyond 500 marks represented only 26.7 per cent of the total number, in 1904 37.6 per cent of the accounts exceeded 500 marks. This is beyond doubt due in the main to the circumstance that in Württemberg the limits for single payments and total deposits are considerably higher than, for instance, in Bavaria. On the other hand, the proportion of rapidly realizable deposits in the savings banks in Württemberg is considerably larger than is the case in the same institutions in Bavaria and Saxony and elsewhere.

In the Grand Duchy of Baden the first four savings banks were established in the twenties of the last century. In the case of this State it is particularly remarkable that

in these institutions, which in 1903 had risen to the number of 155, the average amount to the credit of a depositor had risen to 1,082 marks, thus reaching the highest average in the large Federal States, a circumstance which it is well known, usually points to a relative decrease in the number of small savers.

Passing on to more general considerations, a glance at the statistics will show that the German savings-bank system is in process of brisk growth.[a] This is very largely due to the great confidence which these institutions enjoy, being for the most part in the hands of public corporations and all under official supervision. How fully justified this confidence is may be seen from the fact that cases of peculation or breaches of trust are extremely rare.

It is, however, to be regretted that the distribution of the savings banks throughout the Empire is still very far from uniform, so that, for instance, in the Grand Duchy of Oldenburg there is one savings-bank office to 83,996 persons; but in the Duchy of Saxon-Meiningen, one to 3,095 persons. Here there is undoubtedly much room for improvement.

It has further already been pointed out that the relative participation of the small depositors for whom the savings banks were, properly speaking, created, shows a downward tendency in many States. When considering this fact, it must, however, be remembered that the prosperity, and consequently the income and likewise the savings, of the population at large have enormously increased. It is only by taking this factor into account

[a] Detailed statistics of the Prussian and German savings banks are to be found in the volume of statistics for Germany published by the National Monetary Commission.

that we can explain the fact that in Prussia, in 1850, 34.89 per cent of the books totaled deposits under 60 marks, while by the year 1903 this number had fallen to 27.91 per cent. On the other hand, the number of depositors with more than 600 marks had risen during the same period from 5.05 per cent to 27.91 per cent, i. e., more than fivefold. That the savings banks, even in Prussia, still predominantly serve the interests of the small man, is proved by the fact that in 1903 72.09 per cent of all deposit accounts were less than 600 marks. As will readily be understood it is of great importance for the development of savings banks that the office hours should be long enough and conveniently arranged, as otherwise a great impediment will be offered to all saving. In this respect, however, the greatest diversity still prevails in Germany, and although local circumstances must of course be taken into account, this important question does not receive sufficient consideration from many institutions. This is very strongly illustrated, to take only one example, by the fact that in Prussia 67 savings banks did not in the year 1904 have even one office day every week. Even in the most important rural district savings bank of Germany, the office hours are not conveniently arranged, as they are fixed from 9 a. m. till 2 p. m. daily. It is only lately that gratifying improvements in this department of savings-bank policy are to be recorded.

In order to facilitate the saving of small amounts, the saving-stamp system was introduced in certain States. It has been already remarked that this originated in the Kingdom of Saxony. Although in this State up to

the year 1888 a relatively large number, perhaps 30 per cent, of all savings banks had adopted the system, its progress even here was comparatively slow. Nor, except here and there, has this system found wide acceptance in Prussia. The reason must be sought in the fact that most savings banks have but little predilection for this method, because the stamps, in view of their low amounts—generally from 10 pfennigs to 1 mark—involve too great an expense in printing, and furthermore can be so easily forged.

Transfer business, i. e., the transfer of credit balances from savings bank to savings bank, which is likewise a great incentive to saving, is but little developed as yet in Germany. Here, too, Saxony leads. There are, however, signs (such as the strong plea in favor of this business by the Savings Bank Association) that this practice will find wider and wider adoption in the rest of Germany.

Smaller variants of the savings bank, such as the Farthing and People's Savings Banks (*Pfennig und Volkssparkassen*) and the factory, tax, school, and rent savings banks, are still of so little significance in Germany that they need not be dealt with here.

The post-office savings banks which already exist and in part prosper in many countries are still wanting in Germany, as a second bill aiming at their introduction, submitted to the Reichstag in 1906, did not obtain the approval of the representatives of the people.

IX.

THE STATE AND COMMUNAL SAVINGS BANK LEGISLATION OF RECENT TIMES.

By Dr. Robert Schachner.

[Article from the *Jahrbücher für Nationaloekonomie*, 86, 1906, p. 247.]

Some time ago, in the *Archiv für Sozialwissenschaft und Sozialpolitik*, I showed that in savings bank affairs the antisocial tendency, first noticeable in the middle of the century, has become more and more pronounced, despite the development of social legislation in general. In recent times especially we have had several instances of the further progress of this unwholesome tendency, particularly in the development of institutions organized for profit making.

After a long period of opposition the Prussian administration has now yielded to the demand—subversive of the fundamental principle of sound business—of the communal administrations, and to the pressure of the German Savings Bank Union, for less stringent regulations relative to the reserve funds.

Until now the most extreme general concession required that, after a 5 per cent rate had been reached, at least half the surplus funds were to be turned into the reserve fund, in order that a 10 per cent rate might be attained. As recently as December 5, 1903, Privy Councillor von Knebel-Doeberitz, representing the administration, made this emphatic declaration at a session of the German

Savings Bank Union: "We must unfalteringly uphold the principle that after reaching 5 per cent half the surplus must be added to the reserve fund."

And now the Minister of the Interior decrees, under date of April 27, 1905: "I hereby authorize until further notice, that as soon as the reserve funds of the communal savings banks have reached 5 per cent of the liabilities, the surplus earnings and the interest of the reserve fund may be combined, and of the total sum thus formed not more than half need be turned into the reserve funds. When the reserve funds have reached 10 per cent then all the interest of these funds may be transferred to surplus."

It is easy to realize from readily calculable examples that henceforth, with rapidly increasing assets, the reserve will remain stationary unless large surpluses are obtained. Indeed, if the savings banks earn small or no profits, or allow them to disappear through secret manipulation of surpluses (above all, by loaning capital at low interest rates), the communes will be able to pocket annually a portion — up to a half — of the interest of the reserve fund, and in many places the increase of deposits will cause the existing level of reserves to be lowered. The principle of the 10 per cent reserve fund is *de facto* abandoned.

In order to rectify this oversight, the State should have at least created standards for liquidation of investments, as it has again broken a pillar of safety in order to aid the struggle of the communes for a surplus. It must be pointed out again and again that each relaxation of the provisions regarding reserve funds is merely a source of

profit to the commune, and instead of furthering the interests of the savings bank rather injures them. The concessions of the Prussian State fill the city treasuries, but in no way assist the savings banks as such.

Something might nevertheless be gained if the State would only carry out its relaxed regulations in another way than formerly; for when we consider that in Prussia at the end of 1902 there was a reserve of less than 1 per cent of the deposits in 45 city savings banks (total 689), in 34 of a total of 227 village community savings banks, and in 35 of a total of 412 district savings banks, it is clear that the former provision was theoretical rather than practical. Such small reserves burden the guarantors with a serious risk, for which they should not seek to reimburse themselves with the largest possible surpluses—a method justified by its advocates—but they should be compelled to minimize their risks, chiefly by the creation of larger reserves. The reserves of many savings banks are far behind those of solid banking institutions with which they come into direct competition.

Another questionable Prussian practice is that which opposes the founding of new savings banks if inimical to the interests of district banks. This is accomplished chiefly through a peculiar interpretation of sections 2 and 3 of the Prussian savings bank regulation—according to which the consent for the creation of savings banks can be refused if the commune, on account of its situation and the condition of its finances, is not in a position to guarantee safety to depositors. Various wholly unfounded interdicts have recently been made. Pankow, Rummelsburg, near Berlin, in the district of Niederbarnim, and

Grosslichterfelde in the district of Teltow, are among the places that had to give up the plan to create their own savings banks on that account.

It is not less strange that the State permits agreements of district savings banks, by which these banks give local communes a share of their surplus in return for the nonestablishment by the communes of their own savings banks.

The Prussian State thus directly blocks the establishment of as many savings banks as possible, and thus hinders the desirable extension of opportunities for saving.

The ministerial decree, which requires savings banks to give the financial business of the Prussian Seehandlung preference, has been properly opposed in so far as it seeks to give a monopoly to the Seehandlung. The Bavarian savings banks may enter into relations with two banks only, the State Bank, and the Mortgage and Exchange Bank closely connected with the State, and anyone who knows how injurious this regulation has been for these banks must oppose such a limitation of the business of savings banks and banking institutions.

On the 13th and 14th of January, 1905, the Württemburg official savings banks were discussed in the legislature.

Section 14 of a district ordinance dealing with the official savings banks came up for discussion and decision in the Chamber of Deputies. The administration's draft of this section was fundamentally changed. In its original form the traditional social principles of savings banks had been embodied. In its amended form, however, the demands of middle-class politicians and self-seeking communal representatives which endanger the fundamental

principles of savings banks were embodied. In what measure the function of the savings bank as a help to the poor was illegally relegated to the background may be gathered from the prominence of the middle class in communal representation.

If we compare paragraphs 3 and 4 of section 14 of the administration draft with those sections as passed by the Chamber of Deputies, we shall see very clearly the change in the fundamental point of view concerning savings-bank institutions.

The administration draft provided: "The reserve fund shall amount to at least 10 per cent of the total deposits.

"Administrative surpluses not used for increasing the reserve fund or raising the interest paid on deposits may, with the consent of the district administration, be rendered available for communal purposes, provided that these purposes relate exclusively or mainly to the welfare of the poorer classes, and they shall be used for other purposes only in exceptional cases and with the consent of the Minister of the Interior."

The Chamber amended these paragraphs as follows:

"The reserve fund shall amount to at least one-twelfth of the total deposits.

"At least one-half of the administrative surpluses are to be added to the reserve fund until this has reached the proportionate amount. Further surpluses shall be applied to increasing the rate of interest on deposits, or to *lowering the rate of interest to borrowers;* they can also, with the consent of the Minister of the Interior, be made available for communal undertakings that are entered upon for the good of the inhabitants of the district."

A large minority even advocated the 5 per cent reserve fund, and only a few, like the Director of the Genossenschaftsbank, Henning, were in favor of the administrative draft, and emphasized the strengthening of the banks by strong reserves, as opposed to the safeguarding of the official corporation, which is always brought forward in opposition. These provisions establish a dangerous fundamental principle for official savings banks, one far removed from the splendid standard set by the Württemburg savings banks.

A minimum reserve fund ought to have been fixed, all surplus to be turned into it until this was reached. Such a provision is almost universal elsewhere. Most dangerous in the disposition made of the surplus is the granting of equal consideration to the interests of the depositor and of the borrower, and the elimination of special consideration of the poorer classes. This involves a breaking away from traditions concerning the purpose and the nature of the savings banks, which had hitherto been recognized by law, and which had been embodied in the administration draft. The provisions as to the consent of the state ministry in regard to the use of the surplus have also been so changed that previous mistakes pointed out by ministers and deputies are in no wise avoided.

Whether the administration really can and will oppose the danger arising from the reconstructed paragraphs may well be doubted. Past experience shows that communes have been able to ignore statutory provisions pertaining to the reserve fund and other inconvenient standards.

In the Kingdom of Saxony an ordinance has been issued which prescribes, in view of the extension of the maximum deposit from 3,000 to 5,000 marks recently made by many banks, and in view also of the increase of large deposits, a period of notice of withdrawal of six months for private deposits of more than 1,500 marks, instead of the former period of three months. This is intended to protect numerous savings banks from the injury which may result from short-time notices of withdrawal in a crisis. Since the history of savings banks shows that they have been compelled, in the interest of their reputation and to maintain confidence in critical times, to dispense with any period of notice, it would have been better, instead of these regulations entirely inadequate to meet a crisis, to enact regulations relative to the liquidity of assets.

This most recent phase of state savings bank policy shows that we are steadily giving way before the self-seeking demands of the commune. Therefore it is not strange that the communes themselves, in the absence of opposition, continue these dangerous tendencies, and in many places even go further.

From the reports concerning the business of the savings banks affiliated with the German Savings Bank Union, in the last Yearbook of the savings banks of Hanover, we obtain information concerning 150 savings banks (more than one-fifth of all published reports) in various federal States, which, with an interest rate of 3 per cent on deposits, manage to get for their surpluses from 0.75 per cent to 1½ per cent of the total deposits.

The fact that depositors are satisfied with an interest rate of 3 per cent when state securities pay 3 per cent at 90 is to be explained in the case of very small depositors by their necessities, and in the case of the depositors with small capital by their inexperience in business. To seek to derive profit from the necessity and inexperience of others is not creditable to the German savings banks. The 3 per cent interest rate is not only the heritage of time and conservatism, but has often been especially introduced to increase surpluses, or to maintain them, in cases where there are larger reserves. Of this, Tilsit affords a drastic example:

MUNICIPAL SAVINGS BANKS IN TILSIT.

Year.	Interest.	Deposits at close of year.	Reserve fund.	Interest surplus.
	Per cent.	*Marks.*	*Marks.*	*Marks.*
1903	3.5	6,237,000	[a] 329,000	[b] 69,000
1904 (from April 1)	3	6,692,000	[c] 373,000	[d] 77,000

[a] 5.3 per cent of total deposits.
[b] 1.11 per cent of total deposits.
[c] 5.6 per cent of total deposits.
[d] 1.15 per cent of total deposits.

In both years amounts of over 2,000 marks, which were withdrawn before the end of the year, drew interest only at the rate of 2 per cent.

Furthermore, we find in these statements of the savings banks mention of numerous objectionable features that interfere with the liquidity of the assets of the banks, as a too small investment in negotiable securities—and these consisting often in state securities exclusively. On the other hand, the small investments in mortgages show

that the banks paid little attention to local long-term loans, thus producing an even lower interest on deposits.

Savings bank.	Invested capital bearing interest.	Negotiable securities.	Per cent of securities to total investments.	Rate of interest.
	Marks.	*Marks.*		*Per cent.*
Municipal Savings Bank of Eppingen, Baden	4,620,000	63,000	1.38	4
Savings Bank of the District Bückeburg at Eilsen	5,435,000	204,000	3.75	3½
The Mayoral Savings Bank at Hamborn	5,458,000	354,000	6.48	3¾–4
Municipal Savings Bank at Oberhausen	9,430,000	716,000	7.59	2½–4
Municipal Savings Bank at Oldenkirchen	2,926,000	276,000	9.43	3½ and 4

Savings banks.	Invested capital bearing interest.	Mortgages.	Per cent of mortgage to total investments.	Rate of interest.
	Marks.	*Marks.*		*Per cent.*
Municipal Savings Bank at Crossen	7,439,000	605,000	8.13	3
District Savings Bank at Templin	4,207,000	547,000	13	3⅓
District Savings Bank at Halle	24,811,000	8,453,000	34.07	3
District Savings Bank at Breslau	12,270,000	3,990,000	32.60	3
Municipal Savings Bank at Magdeburg	96,377,000	37,932,000	39.34	3

Thus we see the social-political and financial-political principles of the savings banks violated in like manner.

Under these conditions it is small wonder that the postal savings bank idea continually comes up for discussion. The German savings bank system does not offer the small depositor to-day the advantages of the close-meshed postal savings bank net, and has short-sightedly avoided sacrifices in that direction. Other factors are also at work in Prussia to limit the opportunities for savings.

Even the conservation of local credit, which is the chief argument against that system, is neglected in many places. Nor has the small depositor the consolation of a higher rate of interest in the communal bank than the postal savings bank could afford to pay. An interest rate of 3 per cent, such as the German Imperial Postal Savings Bank would have afforded him, calls for the sharpest criticism in the case of public savings banks, especially when such a rate is not established or maintained because of pressing necessity.

If a bill for a postal savings bank is again introduced—and considering the tendency of the State to enhance its credit by all possible means, such a bill is to be expected—public savings banks can be charged, without fear of contradiction, with having broken the promises made by them in 1885. They have done nothing to give their depositors the advantages of the postal savings bank, a procedure which an earnest social spirit and the restraint of communal greed now so evident would make largely possible.

The clamor for State interference here and for the institution of new savings banks there naturally gives rise to the question whether savings-bank reform is possible in no other way. The German Savings Bank Union seems to be called to this task, and this is also its manifest duty, since it abhors and opposes any interference by the State in the management of the banks. It would render a great service to the German savings-bank system if it would oppose the numerous evils, so readily apparent in financial-political and social matters, and if it would

exclude from its membership all banks which do not come up to certain minimum requirements of liquidity, security, and rate of interest which it might establish. And the State and public opinion would back these efforts.

Instead of this, the activity of the Savings Bank Union has continually lessened, and its latest conventions show an utter lack of vigorous initiative, and indicate a radical departure from the old fundamental principles of savings banks. The communal self-seeking tendency has come to dominate them more and more, and the conceptions of liquidity and safety are beginning to be blurred. In no other way can the opposition to adequate reserves and the indifference to the dangers from the existing way of investment of savings-bank capital be explained.

Indeed, for the sake of peace, resolutions on which unanimous agreement is not to be expected are avoided, referred to the subunion, postponed *ad Græcas Calendas*, or reported on and tabled without action.

If in former years there was general surprise that no decision as to Scherl's project could be secured, the convention of the 5th of December, 1904, took one positive step, the rejection of State interference in investments of savings-bank money. Instead, however, of influencing the savings banks to rectify the notorious lack of liquidity of their assets, so that the State would have no motive for further interference, as the speaker who proposed an investment of 20 per cent in negotiable securities desired to do, they were content with the following platitudinous resolution: "The German Savings Bank Union recog-

nizes that due regard to the necessary liquidity of all communal savings bank assets requires that a definite proportion must be invested in negotiable securities."

A recommendation that savings banks lend their aid for the building of small homes, attached to the resolution, was neither debated on nor disposed of, in spite of its very questionable assertions and demands.

This attempt to avoid taking any action led one of the speakers to point out the duty of the German Savings Bank Union. We can only agree with him that the traditions of the German Savings Bank Union and its significant achievements for German savings banks at the beginning of its career, impose other duties than that of making long-winded speeches, crammed with curious theoretic problems, and displaying a Manchester-like indifference to all abuses.

If the German Savings Bank Union persists in this attitude of indifference to the abuses by individual banks it must not be surprised if the State finally interferes.

In view of the conditions in German savings banking, the discontent of political economists is steadily increasing, and however unwelcome State interference in the activity of autonomous institutions may be, a conflict between communal selfishness and social efficiency, the outcome of which is always disadvantageous to the latter, will finally urge the most energetic advocates of communal independence to call to the State: *Quousque tandem?*

X.

THE PREUSSISCHE - CENTRAL - GENOSSENSCHAFTS - KASSE, OR PRUSSIAN CENTRAL BANK FOR COOPERATIVE SOCIETIES.

By C. Heiligenstadt.

[Article from Conrad's *Handwörterbuch*, third edition.]

The Prussian Central Bank for cooperative societies entered upon its business activity in Berlin, October 1, 1895. It was created under the Prussian law of July 31, 1895. The function of this institution is to promote and strengthen the commercial credit of the small manufacturers and tradesmen—the class who go into business independently, bringing to industry small accumulations of capital and their own labor.

Previous to the establishment of the Central-Genossenschafts-Kasse the advantage of a well-organized and efficient commercial credit was to a considerable degree inaccessible to the small business men, and even to the somewhat larger producers and merchants in the villages and towns. Particularly was this true of the farmers. Difficulties were encountered in satisfying the credit needs of this class of the industrial community. The forms and usages of the existing credit system were not adapted to the needs of the smaller producers and could not be used by them to any considerable degree. Not having access to the money market and its instrumentalities—the Central Bank, the large private banks, the

exchanges—they were unable to secure the cheap credit obtainable through these institutions.

The problem of satisfying the credit needs of these classes of the industrial community in a manner that is adequate and at the same time gives due attention to the solvency and trustworthiness of the borrower can be solved only through the concerted action of cooperative societies. It is impossible in the money market to deal with the small producers as individuals. They can enter the general money market only through the mediation of cooperative organizations. Hence many cooperative credit societies sprang up for the purpose of enabling their members to make use of the organized credit facilities of the general money market. With few exceptions, however, these societies found the money market closed to them. They could not bring about a proper adjustment between the demand and supply of money of their members and the demand and supply of the other industrial classes. As a result, the price which these societies had to pay for credit remained high. This was the rule, the few exceptions to the contrary notwithstanding. Well-managed cooperative credit societies which had succeeded in accumulating considerable capital were indeed able to secure on the basis of it a certain amount of credit. These, however, were rare. Very few societies were fortunate enough to possess sufficient funds to enable them to obtain from the banks the credit they needed.

At first sight the Reichsbank might have been looked to as the institution better suited than any of the existing

banks to satisfy the credit needs of these societies. Under the charter regulating it, however, the Reichsbank can give its credit only through discounting commercial paper or in the form of loans on collateral. Credit from the Reichsbank could thus be granted only to societies presenting negotiable paper for discount or satisfactory securities as collateral for loans. As this was seldom the case the associations could not secure credit from the Reichsbank. In order to be admitted to the discounting privileges of the Reichsbank, an association must have funds (capital and reserves) of at least 15,000 marks ($3,750). In consequence of this requirement the credit facilities of the Reichsbank were necessarily denied to societies not possessing this minimum.

A further difficulty arose in this way: Credit in the form of current accounts is in very many instances the form best adapted to the requirements of the small business man. If, however, a society, in attending to the best interests of its members, fostered its credit business in the form of current accounts, it had to forego the taking of notes to a certain extent, and to this extent the association had to do without the credit that could be obtained through them from the Reichsbank. A society, otherwise able to comply with the requirements of the Reichsbank, could seldom afford to sacrifice this source of credit. It was obliged to choose the lesser of two evils, according to its own peculiar circumstances. As a result, it could not, in its business relations with its members, always employ the methods that would have served their interests best.

Loans on collateral could be obtained by these societies from the Reichsbank only within certain limitations. The mortgages, bonds, and numerous evidences of indebtedness which constitute the property of many of the societies can not be accepted as collateral by the Reichsbank. All these circumstances tend to reduce to a minimum the number of societies which can utilize its credit facilities. Moreover, even in the case of those societies which did business with the Reichsbank, the bank responded to but a small part of their total credit demands. The failure of the Reichsbank to meet the credit needs of the societies doing a discount business with it is evidenced by the statement of its president in the Prussian House of Lords July 6, 1895. More clearly is this seen in the fact that in 1896 Doctor Cruger, the counsel for the General Association of Cooperative Credit Societies, applied to the directors of the Reichsbank for an increase in the amount of credit granted to the cooperative societies in the discount department of the Reichsbank.

Similar difficulties confronted the societies when they sought to secure credit from the other large banks. Under certain conditions these were indeed willing to extend credit to the societies in the form of current accounts, provided these furnished satisfactory deposits. The societies, however, had no resources on which they could draw for deposits that would enable them to open current accounts adequate for their needs. For the most part their funds were still in their incipient stages, and the benevolence of well-to-do members could not well

be counted upon. Moreover, as a rule large banks were but little inclined to occupy themselves with the petty troublesome business of the societies. As early as 1864 Schulze Delitzsch called attention to this evil in the relations of the societies with the large private banks.

Assertions to the contrary notwithstanding, the necessity for a central banking institution, organized so as to satisfy the needs of the societies, had to be recognized. Such an institution was needed even by the societies of the Schulze-Delitzsch type, which were better organized along banking lines. That the agricultural cooperative societies, even less commercial in character than those in the towns, stood in need of a central bank can scarcely be open to serious doubt. In the course of their regular business such societies seldom obtained from their members commercial papers that could be discounted at the Reichsbank or the other large banks. In the rural societies credit is predominately based upon sponsor's notes or mortgages or takes the form of current accounts. The hypothecation of agricultural produce was out of question. It is a method attended with technical difficulties even for the large landowners. For the smaller farmers it was impossible before the Central Bank was established. In the first place they had but small quantities of produce to offer as collateral, and in the second place the branches of the Reichsbank and of the other large banks were too far away.

The entire banking organization existing before 1895 was not adapted to the conditions and circumstances attending the credit needs of the small producers and

business men, whether as individuals or organized in cooperative credit societies. Not only was it unsuited to their needs, but it did not admit of better adaptation. A special institution had to be created.

In establishing a special institution to facilitate credit for the smaller producers and traders in town and country, the primary consideration was to provide for the small independent business men, operating with moderate means, facilities for obtaining the credit necessary for carrying on their business. This credit was to be made available on terms in keeping with the general money market and the conditions of the business in which the applicant was engaged. Pecuniary profit had to be a secondary consideration. It soon became clear that an institution of this character, with philanthropic rather than business motives, could not be established except as a government undertaking.

These considerations did not pass unheeded by the Prussian Government. A bill was introduced in the Prussian Diet June 8, 1895, providing for the establishment of a central institution to facilitate the commercial credit business of the cooperative societies. This bill became law July 31, 1895. The authorized capital having proved inadequate, the law was amended July 8, increasing the capital from 5,000,000 marks ($1,250,000) to 20,000,000 marks ($5,000,000). By a subsequent amendment of April 20, 1898, the original capital was increased to 50,000,000 marks ($12,500,000).

The chief importance of the law of July 31, 1895, lies in its making credit available for the first time to a

large part of the industrial community. It organized for them a centralized system of credit facilities adapted to their needs and admitted them to the general money market. It made possible a coordination of the demand and supply of money on the part of these classes with the demand and supply of money coming from general trade and large-scale industry. This in turn makes possible the most equitable distribution of loan capital among all classes engaged in commerce and industry. As the demands for capital in agriculture and the demands from commerce and manufactures come as a rule at different seasons, an adjustment in the money demands of the different interests will be arrived at with less difficulty. According to the terms of the law creating it, the Prussian Central Bank for Cooperative Societies (*Preussische Central-Genossenschafts-Kasse*) was founded with a view to fostering commercial credit, particularly the commercial credit of cooperative societies. Its mission is to help the smaller men engaged in industry, both in city and country, to obtain sufficient working capital for their legitimate business needs; and it thereby seeks to maintain and foster this industrial class—a task of the highest importance to the social interests of the state.

The duties of the Central Bank are analogous to those of the Reichsbank. The function of the Reichsbank is to maintain harmony in the monetary affairs of the country, to regulate the money circulation throughout the Empire, to facilitate clearings, and to provide means for the utilization of free capital. (See §12 of the bank act.) The Central-Genossenschafts-Kasse of Prussia is

called upon to perform the same functions in the financial transactions of the Prussian cooperative societies, to coordinate their business with the work of Reichsbank and the general money market. Whenever a scarcity of capital is felt in any locality it is the duty of the Central-Genossenschafts-Kasse to come to its relief, either with funds secured from some other society, which may have money lying idle for the time being, or, when this is impossible, with money obtained from the general market. On the other hand, whenever the societies accumulate funds in excess of their immediate needs—and the amount is by no means insignificant—it is the function of the Central Bank to put these funds at the disposal of the general money market. The task of the Central Bank is not limited to an adjustment of the money transactions between the associated mutual societies, although this erroneous view seems to exist in some circles. Its activities are intended to help in bringing about an ultimate equitable distribution of loan capital among all classes engaged in industry. The latter end, however, is the general purpose of the Central Bank; its specific function is to provide for the small producers ample facilities for obtaining credit in the forms best adapted to their needs.

In commercial transactions notes have been found most useful instruments of credit. Where, however, their use is attended with danger to the borrower, it is the duty of the Central Bank to endeavor to minimize or remove the dangers involved in the use of this form of credit. Where this is impossible it must seek to find some other form of credit as a substitute for note transac-

tions. Furthermore, it is the aim of the Central Bank to extend to all affiliated with it an amount of credit justified by the circumstances of the applicant and adequate to his needs. Formerly such a course was possible for a few, but not for all associations.

Finally, it is the endeavor of the bank to secure credit for its clients as cheaply as possible. Only in this way can it help a class handicapped by the lack of adequate capital, whose very existence is at stake in the competitive struggle.

The establishment of the Prussian Central-Genossenschafts-Kasse marks a decisive advance toward the thorough organization of the entire system of commercial credit. Incidentally the bank finds opportunity to contribute to the removal of a social evil, by eliminating unsound and uneconomic credit based upon the pledge of property. For this it seeks to substitute credit resting on personal liability. In the domain of commercial credit, too, the bank can exert its influence in behalf of "emancipation." Affording to the small producers and traders credit, adequate in amount and adapted to their needs, at a rate of interest obtaining in the general money market, the Central Bank will extricate many who are at present forced to engage in business on disadvantageous terms or on conditions that threaten their very existence. It is needless to explain in detail how great is the boon that may be conferred on these classes through the Central Bank. It makes possible the emancipation of the farmer and the artisan from dependence upon the middleman who buys and sells their products.

The Central-Genossenschafts-Kasse was established as an independent institution, having a legal personality of its own. It is subject to government supervision and control. To a certain extent the organization of the bank was modeled after that of the Reichsbank. While closely affiliated with the Prussian Government, it is not a purely government institution. A detailed discussion of the legal status of the Central Bank is found in an opinion of the supreme court, rendered at the instance of the Prussian Minister of Justice on October 31, 1904. (*Justiz-Min. Blatt*, No. 45, p. 316.) The bank has a legal personality of its own, and in matters of property is entirely independent of the Prussian Government Treasury. Under the Prussian act of July 31, 1895 (cf. also acts of June 8, 1896, and April 20, 1898), it is endowed with a special charter determining its organization. As an institution engaged in commercial banking, it is subject to the provisions of the mercantile code with regard to all matters not covered by its charter. The bank was established with its chief place of business in Berlin, the financial center of Germany. No attempt was made to organize branches, the banks of the federations and the individual societies assuming the functions of branches for credit and loan transactions. For this purpose they are well suited—far better than any specially organized branches corresponding to those of the Reichsbank could be.

In section 5 of the act of July 31, 1895, there was reserved to the federated societies the privilege of subscribing to the capital of the Central Bank. Since 1905 a number of these federations have availed themselves of this privilege.

The bank is under the supervision of the Minister of Finance. In questions affecting the Ministry of Agriculture or of Commerce and Industry, he must act in concert with these departments. In the interest of a proper business administration the accounts of the bank are subject to audit by the high court of accounts. Moreover a report of the administration, of the expenditures for salaries and other expenses, is made annually to the Prussian Diet. The members of the House are thus informed of the cost of administration, the objects for which the expenditures were made, as well as of the extent of the business. The Diet has furthermore a voice in the general policy of the institution.

The officers of the Central-Genossenschafts-Kasse have the privileges and duties of officials directly employed by the Government. The administration is vested in a board of directors. This board has the character of a government body. Associated with the board of directors is an advisory council made up of men identified with the societies. Their duties are prescribed in sections 12 to 14 of the act of July 31, 1895.

The character and the scope of the business open to the Central-Genossenschafts-Kasse is prescribed in detail in section 2 of the act of July 31, 1895. The bank is authorized to grant commercial credit to meet temporary business needs; it is forbidden to make loans on real estate. As it is impossible to investigate every application for credit, it has made it a rule to grant loans at interest only to federations and associations of registered industrial and agricultural societies.

For a more detailed account of the organization and business methods of the bank, the reader is referred to the special publication entitled *Preussische Central-Genossenschafts-Kasse von 1895 bis 1905*, Berlin, 1906.

The growth of the bank is shown clearly by the appended table.

TRANSACTIONS AND ACCOUNTS OF THE CENTRAL-GENOSSENSCHAFTS-KASSE, 1895–1907.

Fiscal year April 1 to March 31.	Total transactions.	Cash transactions.	Transactions in coupons and interest certificates.	Bills discounted.	Bills collected.	Transactions in securities (including own securities).	Loans on collateral.	Current accounts.	Deposits.	[illegible]	[illegible]
1	2	3	4	5	6	7	8	9	10	11	12
1895 [a]	141,626,574.24	64,727,807.84	61,034.23	3,881,736.15	(b)	8,824,066.85	2,126,038.47	16,924,730.21	958,733.48	(b)	44,122,427.01
1896	1,177,335,868.70	470,286,989.66	2,371,093.85	46,184,097.01	(b)	100,100,195.37	47,170,126.38	156,512,859.40	62,625,705.93	(b)	292,084,801.10
1897	1,987,852,162.82	746,653,856.59	4,706,378.72	111,413,656.52	(b)	88,894,890.85	88,761,477.10	288,462,360.46	163,233,949.37	(b)	495,725,593.21
1898	2,971,555,393.64	1,122,459,045.18	5,238,658.47	149,771,191.32	(b)	58,521,410.11	[c] 40,491,156.40	380,518,925.45	193,938,718.17	(b)	1,020,616,288.54
1899	3,361,478,343.42	1,251,494,381.06	6,455,534.21	164,225,497.79	(b)	50,873,125.75	45,612,550.26	429,312,629.68	206,125,672.66	(b)	1,207,378,952.01
1900	4,010,245,360.10	1,347,123,158.46	8,032,267.82	259,287,110.64	(b)	254,571,020.24	33,235,378.77	520,386,881.77	249,794,214.13	(b)	1,337,815,328.27
1901	5,862,292,106.52	2,033,309,564.96	9,877,375.29	384,064,061.84	(b)	588,633,964.80	30,907,407.41	667,238,189.14	525,940,076.90	(b)	1,622,321,466.18
1902	8,180,309,548.76	3,184,203,218.18	13,143,543.79	479,912,444.43	(b)	329,451,103.06	39,802,216.08	641,838,074.83	582,309,795.07	(b)	2,909,649,153.32
1903	8,674,868,004.38	3,373,439,608.71	13,512,007.36	468,838,699.78	(b)	366,103,879.22	42,247,567.68	691,954,875.49	634,218,637.98	(b)	3,084,552,728.16
1904	9,835,159,987.80	3,842,092,562.09	16,156,142.51	478,830,017.75	(b)	454,161,062.73	42,975,803.32	841,632,879.34	792,282,315.64	(b)	3,367,029,204.42
1905	12,278,225,957.02	5,050,892,955.82	17,644,966.18	521,083,863.96	(b)	251,863,716.93	82,749,878.03	913,397,549.98	865,049,142.14	(b)	4,575,543,883.98
1906	11,912,472,949.52	4,766,181,656.89	19,872,078.14	583,880,680.79	(b)	226,432,568.18	120,564,464.10	989,529,201.58	1,015,604,257.21	(b)	4,190,408,042.63
1907	13,281,819,862.98	5,310,221,386.32	35,154,682.46	649,884,336.15	50,245,104.24	246,619,933.85	214,779,390.26	1,117,957,434.93	[illegible]	7,190,593.05	4,310,239,933.06

[a] Semester, October 1, 1895, to March 31, 1896.

[b] No data.

[c] Decrease compared with the preceding year due to change in the interest rate on loans on collateral.

XI.

COOPERATIVE CREDIT SOCIETIES (RAIFFEISENSCHE DARLEHNSKASSENVEREINE).

By Hans Crüger.

[Article from Conrad's *Handwörterbuch*, third edition.]

(*a*) DEFINITION.

The term *Darlehnskassenverein* "loan association" usually designates a certain class of cooperative credit institutions—the cooperative credit societies organized on the system of Raiffeisen. The name is, however, misleading, for the designation "loan association" or "savings and loan bank" is used also by credit institutions organized on different systems.

All cooperative credit institutions come under the cooperative society law of 1889 (amended in 1898), and its compulsory provisions therefore apply to these associations. Section 1 of the law speaks very broadly of "loan and credit associations." All systems come under it. None can escape its provision, except as the law allows for regulation by special charters. Sometimes the business of a society develops beyond the bounds of its charter, so that it is to be classed with one kind of society according to its charter, and with another according to its business. Some cooperative credit institutions do business under the name "loan associations," and enjoy the special provisions applicable to the "loan association," while in fact they are credit institutions seeking to promote the

commercial and industrial interests of their members in accordance with ordinary business principles. Here, however, we are concerned with only a certain kind of cooperative credit institutions—those originating with Raiffeisen. These are more often called "savings and loan banks" either with the prefix "Neuwieder," referring to the location of the central office of this system of banks, or "Raiffeisensche," referring to the name of the originator of these institutions. They are also spoken of frequently as the "agricultural savings and loan banks," from the fact that these cooperative societies are intended primarily to serve the agricultural interests. The last statement must be taken with some limitation. On the one hand the field of service of these savings and loan banks is limited, at least according to the original plan, to the small farmers. Here, however, they are not the only credit institutions catering to this class. On the other hand an attempt has been made to establish loan banks on the same principles for other classes; for instance, for artisans. The name of these institutions is not sufficiently descriptive of their essential character, when it is applied to societies which do not confine themselves to the granting of credit, for as a rule they extend their services to all branches of industry associated with the farm. It is not at all a rare thing for a mutual credit society to give more attention to the purchase of feed and fertilizer than to its credit transactions.

The history of the Raiffeisen loan societies was rather obscure up to the last few years. The various institutions intended to serve the loan societies were well known, but little could be learned of the extent of their business,

and less of their character and purpose. Their publications were scanty and the Neuwied confederation would have nothing to do with statistical reports. Fassbender's work, *F. W. Raiffeisen, His Life, Thought, and Activity*, first made it possible for a larger public to gain some insight into the history and organization of the Neuwied banks. It is true the Neuwied Federation has not accepted this book as unquestionable authority; it has gone so far as to declare it apocryphal, without attempting, however, either to refute or to correct it. No doubt an attempt to do so would have been in vain. Professor Fassbender was on intimate terms with the Neuwied Federation and particularly with Raiffeisen. He was even a member of the mercantile corporation, Raiffeisen, Fassbender & Co., established by Raiffeisen. After Raiffeisen's death, Fassbender endeavored to institute a number of radical reforms. In this he met with most determined opposition, and at last decided to retire from his position at Neuwied. Developments, a few years later, proved that Fassbender was fully justified in his demands. Perhaps, however, even then his reforms would have been too late.

(*b*) HISTORY.

The following sketch of the history of the loan societies follows the account given by Fassbender in his above-mentioned work.

Like Schulze-Delitzsch, Raiffeisen had gone through the horrors of the winter of 1846–47. Both men had organized societies primarily intended for relief purposes. Raiffeisen occupied the post of mayor in Weyerbusch.

There he established a charity society and also a cooperative bakery which was able to sell bread to the poor for half of the regular price. In 1848, Raiffeisen came to Flammersfeld. In 1849, he founded there the "Flammersfeld Society for the relief of indigent farmers." The activity of the society was limited, primarily, to the purchase of cattle for poor farmers. In 1852, Raiffeisen became mayor of Heddesdorf. There he proceeded to organize the Heddesdorf Benevolent Society. This association had a great variety of objects. Thus, for example, it assumed the care and education of neglected children; it attempted to find work for idlers and discharged convicts. The interest and zeal of the members gradually abated. At the general meeting of the society Raiffeisen encountered obstacles. "It was finally decided to dissolve the benevolent society, to relinquish all of its purposes, except that of regulating credit, and to organize a cooperative society based on self-help, in accordance with Schulze-Delitzsch's example. This plan was carried out in May, 1864. Where there had been before a group of creditors in the society and a group of debtors outside of it, now there were brought together in one body those who needed credit and those who were prosperous and willing to help." (Fassbender p. 177.) Thus there was founded a cooperative society of the Schulze-Delitzsch type.

From a document of Raiffeisen's, Fassbender shows us what the plan was. This document is particularly interesting because it shows how Raiffeisen changed his views and adopted the principle of self-help. July 24, 1864, there was held the first meeting of the Heddesdorf Loan

Society. On May 21, 1865, at a general meeting it was resolved to join the legal bureau of the Schulze-Delitzsch Federation. Fassbender quotes the minutes of the general meeting: "Schulze-Delitzsch, noted for his social work, has opened a bureau in Potsdam, a so-called legal bureau, to serve as a center for the German cooperative societies. Through it the different societies can readily communicate with one another, secure information from one another, and be of mutual assistance. It is highly desirable and to the interest of the society that it join this federation and subscribe to the publication of this legal bureau. It is proposed that this society become a member and contribute annually 10 thaler to the legal bureau."

"The Heddesdorf loan society of 1864," says Fassbender, "is a society of the Schulze type." Its charter moreover contains the provisions, usual in the Schulze-Delitzsch societies, governing entrance fees, shares, and the building up of reserves. At this time Raiffeisen's position was that "self interest is the bond needed to hold together the institutions in question."

While Schulze-Delitzsch addressed himself primarily to the artisan and laborer, Raiffeisen turned to the farmer. Fassbender writes: "There has been much speculation as to the time and circumstances under which Raiffeisen finally broke away from Schulze-Delitzsch's plan, and the point of origin for the various institutions that are at present found in the societies named after Raiffeisen. This question can be answered more readily than it would seem at first sight. Psychologically we must consider four influences which determined both the peculiar form of the

separate societies and the development of the organization of their federation—(1) the pressure of existing circumstances; (2) the adoption of the most obvious expedients suggested by the circumstances; (3) devotion to the religious and charitable idea of making provision for the indigent and helpless, and in connection therewith, (4) an educational motive—that of educating the members individually and collectively, influencing not only their voluntary conduct, originating in ethical motives, but introducing various coercive measures which would necessarily react upon the individual.

The experience at Anhausen was the starting point for this movement. The characteristic features of the Anhausen society are described by Raiffeisen himself. There "the members pay neither initiation fees nor dues; none participate in the profits; after deducting the relatively slight expenses, whatever profits there are, remain the property of the society, becoming, so to speak, the deposits of the members." Raiffeisen tells us further, that at the general meeting of the association at Anhausen he had himself made an attempt to "bring about corresponding changes in the constitution," that is, to model it upon the Heddesdorf society. The members, however, declared themselves in favor of adhering to the existing arrangement and refused to introduce the payment of dues by members. This was the starting point in the Raiffeisen movement. The geographical position and other attendant circumstances at Anhausen of themselves determined the structure of the system. "Chance association with a rural community, where considerations of business and profit were out of question, constituted the

starting point and the primary elements in the origin of the agricultural societies, and not any clearly conceived theory." (Fassbender, p. 104.)

(*c*) PURPOSE AND OBJECT OF THE RAIFFEISEN BANKS.

One characteristic in the plan of the Raiffeisen societies is that the same institution shall devote itself to a number of objects. The society is not only to be a savings and loan bank, but is also to serve as a cooperative society for the purchase of agricultural necessities, such as seed, fertilizer, feed; for the sale of agricultural produce, such as grain and fruit, and for the maintenance of machinery, implements, and breeding stock. "In a word, the banks are to constitute the basis and center of the various common interests of the villagers." (Fassbender, p. 201.) "Raiffeisen's ultimate purpose was undoubtedly ethical betterment, paving the way for social reform along general Christian principles. Accordingly the improvement of the material interests of the members of the society was made subordinate to ethical aims. As a natural consequence this led to the idea of shaping the meetings of the societies so as to make them serve as rural clubs, in which there were to be discussed not only the technical questions of farming, but also ethical and social problems." (Fassbender, p. 201.) The starting point for Raiffeisen's endeavors was the idea of Christian solidarity.

(*d*) CENTRAL BANKS AND THE FORMATION OF FEDERATIONS.

One of the greatest difficulties encountered in organizing the societies was the fact that all of them found themselves with an abundance of money at certain times and a

scarcity of money at other times. To remedy this, Raiffeisen planned a central bank. Raiffeisen writes: "If we could imagine similar establishments in each province, or in each State of our beloved German fatherland, and all the central offices united in turn in one center, social conditions would of necessity become more and more harmonious." A number of cooperative banks were established. These were united by Raiffeisen into a "General Bank" (1874). In connection with it he contemplated establishing a life-insurance company for farmers, the "Arminia." However, the federation of societies was not compatible with the law of 1868. The federations had therefore to be dissolved.

September 30, 1876, Raiffeisen established the Central Agricultural Loan Bank (*Landwirtschaftliche Zentraldarlehnskasse*). Its main office was at Neuwied. It had a capital of 500,000 marks. According to its charter speculation was absolutely prohibited, and likewise transactions which were likely to involve risk. In 1877 the federation was established. Difficulties were encountered when the attempt was made to secure regular contributions, for the small separate societies were able to contribute very little. Raiffeisen therefore undertook to organize a business enterprise, the profits of which were to be used to maintain the organization of the federation. According to Fassbender, Raiffeisen had in mind the organization of a "society of charity." He had before him the vague idea of a "nonsectarian order, a society embracing the entire life of its members, based upon the general principle of 'the fulfillment of Christian duties.'" Raiffeisen abandoned the realization of this idea because of Fassbender's

opposition, as it seems. Instead he transferred to the new enterprise his private business—a wine shop, and also an agency which he had held for some time for the Stuttgart Life Insurance and Savings Bank. Out of this step came the mercantile firm of Raiffeisen, Fassbender & Co., registered June 14, 1888. The original proprietors of the company were Raiffeisen, his daughter Amelia, and Fassbender.

The object of the company was to engage in mercantile pursuits. The profits were to be used, under the charter, for the benefit of the societies. The conduct of the business was left to Raiffeisen and Fassbender. Fassbender writes (p. 222): "The purposes of this company can be understood only in connection with the original idea. The trading company established was originally intended to serve as the business section of the society of charity. As actually realized it is only a torso, the realistic fragment of a society resting on an idealistic foundation, the members of which renounced property and family, so as not to be exposed to the suspicion of selfish ambitions."

On the death of Raiffeisen, in 1888, he left behind him a number of small cooperative savings and loan societies in different communities, a banking corporation to facilitate the adjustment of the demand and supply of money, a common legal bureau to counsel and supervise them, and a trading company to carry on the mercantile affairs of the societies.

(*e*) SECESSION FROM NEUWIED.

In 1875, Fassbender writes: "Opposition to Raiffeisen's views as to the organization and conduct of the societies

became active." In 1879 an independent Hessian federation sprang up. The determining motive for this secession was not divergence of opinion in matters of organization, but the fact that many were repelled by the pietistic tendencies of Raiffeisen and his dogmatism and mysticism as to the purposes of the societies. Haas, Märklin, and Weidenhammer, the leaders of the Hessian and Baden societies, allied themselves with the Schulze-Delitzsch organizations and formed in 1883 the Union of German Cooperative Agricultural Societies (*Vereinigung der deutschen landwirtschaftlichen Genossenschaften*). These in 1890 adopted the name General Federation of German Agricultural Associations (*Allgemeiner Verband der deutschen landwirtschaftlichen Genossenschaften*). Originally there was no intention to compete with Raiffeisen in his special field—the rural loan banks. Soon, however, the federation was extended to all kinds of associations. Contrasted with the centralization of the Neuwied Federation, there was the utmost decentralization in this federation.

(*f*) OTHER NEUWIED INSTITUTIONS.

In 1897 the Neuwied organization established a separate central purchasing agency for the purchase of agricultural machinery and implements in Frankfort on the Main, and a fertilizer factory, "Unitas," in Belgium. In the same year there was also founded the German Central Manufacturing and Trading Society (*Deutsche zentral Produktions- und Verkaufsgenossenschaft* for the sale of the products of the allied Raiffeisen cooperative societies for production and distribution. The reason

for creating new organizations lies in the fact that agricultural societies for production and distribution organized on the basis of limited liability could not be affiliated with the Central Loan Bank. Under §4 of its charter the Bank could cooperate only with societies having unlimited liability. It did not seem desirable to modify the charter to permit this.[a]

(*g*) FIRST REFORMS.

The organization introduced by Raiffeisen himself, providing for provincial divisions, each with its branches and federations, was exclusively for administrative purposes. In 1899 the Neuwied Federation was radically transformed. The firm of Raiffeisen & Co. was liquidated; the Central Agricultural Loan Bank of Germany, which had hitherto been devoted to purely financial transactions, undertook commercial transactions as a separate branch of its business. This rendered superfluous the Central German Association for Production and Distribution (Limited). The firm of Raiffeisen & Co. continued to exist, but only to conduct a printing office. It retained title to the land and buildings and likewise to the claims on the association's fertilizer plant, "Unitas." Subsequently, however, this factory also was transferred to the Central Agricultural Loan Bank of Germany.

[a] The principle of unlimited liability is accepted only in the Neuwied Federation. In the Darmstadt Federation there are numerous loan banks with limited liability. In Prussia loan banks with limited liability, but otherwise organized on the Neuwied type, are found, particularly in Pomerania and in the Province of Saxony.

The executive board of the Central Loan Bank, which had heretofore been composed of only two, the general director and a second director, was now made to consist of the general director and all the directors of the federation. These were at the same time the directors of the branches or subfederations. A dozen such branches were established for Germany. A feature entirely new in the organization was the establishment of cooperative district banks. These were to devote themselves to the financial transactions of the mercantile cooperative societies allied with the General Federation—that is, all cooperative credit societies that were not organized on Raiffeisen principles. Such societies could do only a mercantile business with the Central Loan Bank; under the charter of the Central Loan Bank they could not become shareholders, owing to the fact that they were not unlimited liability corporations. For the same reason they could not enter into credit dealings with the Central Bank. Hence the district loan banks were organized as registered companies with limited liability. The director of these district banks is the director of federation or of the branch in the particular district. These district banks are in turn intermediaries between the separate societies and the Neuwied Central Loan Bank, for the Central Loan Bank claims the right to deal with these bank associations, although they are not organized on the unlimited liability plan.

As a result of these changes a certain amount of centralization was introduced, at least as compared with the previous situation. On the other hand, however, financial and mercantile transactions were now combined in

the Central Agricultural Loan Bank of Germany. The fertilizer factory "Unitas" was also taken over by the bank. This amalgamation of different branches of business involved considerable increase in the business risks, as unhappily appeared. Undoubtedly, however, the serious crisis through which the Central Loan Bank passed a few years later had its origin in affairs antedating the period of the reforms of 1899.

(*h*) FUSION WITH THE IMPERIAL FEDERATION—ADDITIONAL REFORMS IN THE NEUWIED FEDERATION.

In 1901 the General Federation of German Cooperative Agricultural Societies at Darmstadt and the General Federation of Cooperative Agricultural Societies of Germany at Neuwied issued a joint declaration to this effect: "Convinced that a unified organization of German agricultural societies is imperative for the success and extension of this important branch of industrial life, and is also in accord with the wishes of those concerned, the two federations have entered into negotiations looking to a union of these great bodies of societies." However, the alliance was not consummated at once. Not until 1902 was the announcement made from Darmstadt that the Darmstadt and Neuwied federations had united. The *Kölnische Volkszeitung* of November 10, 1904, published an article by Fassbender on this subject. He says: "Neuwied merges its central organization with that of the General Federation and allows its twelve branches to become legally independent. These branches will now have each its own federation director, federation executive board, and supervisory committee. As independent pro-

vincial federations they become members of the existing general federation for the Empire. It is further determined that individual agreements are to be entered into between the old provincial federations and the Neuwied branches, so as to avoid friction in the future." The terms of consolidation, as they became known subsequently (*Blätter für Genossenschaftswesen*, 1905, p. 8), coincided in the main on these fundamental points.

This programme received the approval of Fassbender, who had zealously fought for decentralization while he was still a member of the Neuwied Federation. As a matter of fact, the question was now no longer one of decentralization but of surrendering independence and uniting with the Darmstadt Federation. In the *Cooperative Societies News* (*Blätter für Genossenschaftswesen*, 1905, p. 10) the situation was examined critically. With reference to the Neuwied Central Loan Bank, the report reads: "The condition of the bank is quite unintelligible. It reflects in a high degree the serious mistake made by the Neuwied Federation of combining in one institution credit and mercantile transactions." Criticism was directed against the Central Loan Bank's absorption of the fertilizer factory "Unitas" and the business of Raiffeisen & Co. The outcome has proved the criticism to be justified.

The union effected with the Imperial Federation seems as a matter of fact to be very loose. Not even the conventions are maintained. Though the Neuwied associations have in the meantime become progressive federations, they very seldom manifest any tendency to amalgamate with the progressive local organizations of the Imperial Federation. Champions of extreme Neuwied

orthodoxy cherish the idea of imbuing the Imperial Federation with the Neuwied spirit. In the report to the convention in 1905, Kreth, the director of the federation, says, incidentally: "It will be our duty henceforth to stand by the work and the spirit of our leader in the struggle, and to convince our new friends as quickly and as unobtrusively as possible that we are the heirs to the 'true ring,' and that the best they can do is to become converted to our views. * * * To this end we will contribute all we can. By a campaign of education and by example we shall work for the day when the united cooperative agricultural societies will be enrolled under the banner of Raiffeisen."

It may perhaps be only chance, but it is none the less remarkable, that the amalgamation of the two federations should have occurred at the time of a serious crisis in the Central Agricultural Loan Bank of Germany and the repudiation of the Imperial Societies' Bank (Limited) by the Prussian Central Bank for Cooperative Societies. In 1902 the Imperial Agricultural Societies' Bank (Limited) (*Landwirtschaftliche Reichsgenossenschaftsbank e. g. m. b. H.*) was organized by the Darmstadt Federation. It was established in opposition to the Prussian Central Bank for Cooperative Societies. The Prussian Central Bank responded by a circular in the *Berliner Korrespondenz* of October 31, 1904, in which the various federation banks were given the alternative of doing business with it or with the Imperial Societies' Bank. This was a declaration of war against the Imperial Societies' Bank (Limited).

(*i*) CRISIS IN THE CENTRAL LOAN BANK.

In 1905 the Central Loan Bank of Germany, at Neuwied, was forced to make public acknowledgment that its reserves (about three-quarters of a million marks) had been lost in various ways. Among the losses was a claim against the Neuwied Federation amounting to 215,000 marks. It was explained earlier, that one of the characteristics of the Neuwied Federation was to exact very few contributions from its members, and to defray the expenses of the federation from the profits of business enterprises. The expenses were to be defrayed by the mercantile firm of Raiffeisen & Co. This firm was taken over by the Central Loan Bank, and with it claims to the amount of 215,000 marks against the federation were written off. The Neuwied Federation had, moreover, repeatedly received considerable subsidies—a gift of 30,000 marks from Emperor William I, in 1882, and another of 20,000 marks. Subsequently other subventions were granted.

At the time of the crisis of the Neuwied Central Loan Bank, the trading societies were frequently blamed for the losses. It is true many losses are to be traced to this source. It is not, however, the trading societies as such that are to blame, but rather their recklessness in granting credit, their undertaking of many hazardous enterprises, and in connection therewith the too liberal grants of credit on the part of the cooperative district banks. The extension of their business activity to all sorts of enterprises proved disastrous to the Central Loan Bank and likewise to the district banks. They thought it

necessary to extend credit at all times at a low rate of interest, regardless of the commercial rate, and sought to recoup themselves from the profits of their commercial enterprises. This led to the most involved undertakings and to losses.

The latest report of the Central Agricultural Loan Bank of Germany (for 1907) is a valuable contribution to the study of the situation, in spite of the fact that the transactions show a balance of profit. In it there is written off 119,000 marks as absolute loss; further, 122,000 marks in doubtful current accounts are written off; the bank shows an item of almost 1,000,000 marks charged to participation account; the mercantile stock account amounted to nearly 3,500,000 marks; under current accounts the "Unitas" establishment is charged with 460,000 marks, and Raiffeisen & Co., in liquidation, with 1,735,000 marks; the Central Sales Agency of the German Wine Growers' Societies (*Zentral Verkauf Genossenschaft deutscher Winzervereine*) with 1,500,000 marks; the outstanding accounts of the mercantile department amounted to 6,356,000 marks. At the general meeting (July 6, 1908), one item criticised throws a peculiar light upon the general method of doing business. The item "receipts from interest" amounted to 560,190 marks. In the report, however, there was added the statement: "The receipts from interest were, in fact, 129,800 marks more. Interest to this amount, however, was remitted or abated in the course of the year to poor societies and charged to interest abatements and remissions." (For an account of the crisis in the Central Loan Bank, see *Blätter für Genossenschaftswesen*, 1905, pp. 355, 366, 393, 410, 439, 508.)

Naturally we are led to compare these incidents with the charter limitations which the Neuwied organization has adopted for the regulation of its business transactions. The Central Loan Bank was organized as a corporation, this form of organization being chosen because there were doubts as to the value of the newly affiliated societies. Only cooperative credit societies were permitted to acquire its shares, and they could not transfer their shares without the consent of the directors of the banks. Twenty per cent of the net profits were to be carried over to the permanent reserve fund. The rate of dividend was limited to 4 per cent at first and later reduced to 3 per cent. Much was said about philanthropic purposes and Christian charity. There was a time when the leaders of the Neuwied federation claimed that the credit societies were superior to societies belonging to other systems, on the ground that one established on Neuwied principles was proof against loss. The limitation of each society to a small district, the gratuitous administration of its affairs, the absence of accumulated business capital—these were regarded as constituting an almost perfect safeguard against losses. Events have proved that these precautions did not afford the agricultural societies absolute protection against defalcation and bankruptcy. It is regarded as characteristic of the Neuwied system that in extending credit its officers consider not only the reliability of the applicant, but also the uses to which the money is to be put. However, it has not been possible to escape losses by these means. What is more, the Central Bank itself suffered severe losses, and at the general con-

ventions it had to bear the charge of engaging in speculation.

The weak points and economic defects in the organization became apparent in the crisis of the Neuwied Central Loan Bank, and unless a radical reorganization takes place they will appear still more frequently in the future. Strict adherence to the original dogma is found to-day in the Neuwied Federation only among the lowest elements in the organization—the individual cooperative banks. The central branches, on the contrary, are more in danger of being charged with too much willingness to enter upon business enterprises for which they are not adapted either by the technical knowledge of their officers or by the financial strength of the associations. At the general meetings and at the federation conventions seven-eighths of the speakers belong to the clergy. But, while there is no doubt that the cooperation of the clergy had been to the advantage of some of the loan banks, nevertheless commercial experience is essential for the success of enterprises which amount to millions, and part of which involve considerable risk. The bad effects, in many cases, on the business condition of cooperative banks resulting from their being largely left in the hands of farmers is shown by Ehlers in his book *The Problems of Cooperative Credit Societies*.

These events are furthermore very instructive as showing the effects of the combination of societies for business purposes. In spite of the decentralized organization, there has been maintained a most far reaching centralization in business. The result has been that the entire business organization and all its component parts are

affected by losses, whereas in the absence of combination the effects of such losses might have been localized. (On this point see the author's article "Centralization and Decentralization," in the *Revue Économique Internationale*, Sept., 1908).

(*j*) THE SOCIETIES IN RELATION TO THE PRUSSIAN CENTRAL BANK FOR COOPERATIVE SOCIETIES.

In his book "Banking and Credit for the German Middle Class," Hugenberg gives an account of the societies in relation to the Prussian Central Bank for Cooperative Credit Societies. His exposition has particular value, for he was for many years director of the Federation for the Neuwied organization in the province of Posen, and later filled the position of expert on the cooperative societies in the Prussian finance ministry.

The local cooperative loan banks, in Hugenberg's view, constitute the foundation of the system, just as in the Neuwied organization. Having no business managers they must avoid financial and commercial transactions with the outer world—the world outside of associations—if the agricultural societies are to administer their affairs on a sound basis and remain true to themselves. This fact makes necessary the establishment of a central office for a large number of banks, the purpose of which is to direct their technical banking operations and mercantile transactions, to advise and supervise them. This is the basis for the union of the agricultural societies. The sphere of the credit societies must be so limited that the members will know one another, "and be able to look into one another's pockets," that is to say, it

should be confined to the local community—"at most the parish." It is the duty of the cooperative loan bank to manage the joint purchase and sale of the main commodities produced or required on the farms—feed, fertilizer, coal, machinery, grain. Another of its functions is, "the moral and spiritual uplift of its members, for this constitutes the essence of the philanthropic endeavors which were at the basis of Raiffeisen's work in building up the societies."

The cooperative loan banks form the foundation of the provincial organization. The institutions for the provinces are the federation banks. This system culminates in the Prussian Central Bank for Cooperative Societies. Hugenberg is therefore opposed to the Central Agricultural Loan Bank of Germany at Neuwied, and likewise to the Imperial Agricultural Societies' Bank (Limited), which had in the meantime become a corporation. He can find no need for a "separate bank, independent of the State, created at the instance of the agricultural interests," and he claims that its opposition to the Prussian Central Bank rests upon "a strange misconception of actual conditions and constitutes a menace to the interests of the agricultural societies." In this view we have the principle of self-help, supplemented by governmental assistance, carried to its logical conclusion. The entire system of agricultural societies—and subsequently it seems, also, the cooperative societies in other trades—is to become subject to the all-embracing influence of the Prussian Central Bank for Cooperative Societies. Whether this is ultimately to develop into an "imperial system of cooperative societies" Hugenberg does not say. The

question naturally suggests itself whether in the end the Prussian Central Bank, in obedience to this fundamental idea, will not adopt the same attitude toward the Central Agricultural Bank of Germany at Neuwied that it did in 1902 toward the Imperial Agricultural Societies' Bank (Limited).

(*k*) THE CLERGY AND THE NEUWIED BANKS.

We have said above that Raiffeisen wanted his organization to be imbued with a Christian spirit and Christian charity. For this reason the clergy gave particular attention to this Neuwied idea. The Congress for Home Missions (Posen, 1895) adopted the following resolution: "In the Raiffeisen loan banks, organized on the plan of Frederick William Raiffeisen, we welcome a truly Christian undertaking, in which there is realized practical social reform on a Christian basis. These cooperative societies have a Christian origin (in the consecrated Christian personality of Father Raiffeisen and the religious and ethical principle underlying the regulations of the societies); they manifest a Christian labor of love, mutual responsibility in a Christian sense, parochial organization, gratuitous service in their administration, extreme conservatism and due care in granting of loans with a view to the religious and moral good of the borrowers, the accumulation of common funds; they pursue Christian aims, the revival of the spirit of Christian fellowship, a sanctifying discipline, the prevention of degeneration and pauperism, and maintenance of public welfare."

The evangelical clergy, and even more the Catholic clergy, endeavored to secure a large influence in the Neuwied organization. In France and Italy it is the

Catholic clergy which exercises a decisive influence in the Raiffeisen banks. The German Neuwied Federation, too, joined an international federation of associations—the international federation of Raiffeisen banks. The conventions of this body were of a pronouncedly Catholic character, which was made very prominent. The administration of the loan banks is strongly dominated by the clerical element.

(*l*) SCHULZE-DELITZSCH AND RAIFFEISEN.

The differences between the systems of Schulze-Delitzsch and Raiffeisen have been set forth in the author's *Introduction to the German Cooperative Societies* (p. 110), as follows: Raiffeisen was of the opinion that the short-time loans of the Schulze-Delitzsch societies were not adapted to the needs of the farmer; further, he did not approve of the note as evidence of indebtedness, but preferred less formal evidences. He also favored loans for two years and more, up to ten years. Recognizing the fact that such long-term credit was incompatible with the short period for which money was at the disposal of the society, Raiffeisen proposed that it should always reserve to itself the right to call loans after four weeks' notice. Under certain circumstances this would of course render illusory a long-term loan. To-day the conviction is steadily gaining ground, even in agricultural societies, that long-term credit is not compatible with the economic foundation of the society and that it involves a serious violation of the banking principle which requires that funds be invested in readily realizable securities.

The limitation of the business sphere of the society to the rural community or to the parish under the Raiffeisen

system rests upon the idea that the institution should embrace the entire economic life of the village, while at the same time remaining but a member in a larger general organization. Here we find the clearest expression of Raiffeisen's principle of paternalism. It is sometimes said that Schulze-Delitszch contemplated a very wide sphere of activity for the cooperative societies. This opinion is erroneous. Schulze-Delitzsch was content that the society should choose for itself a sphere of activity extensive enough to insure its existence and its independence. Thus Schulze-Delitzsch often enough warned the cooperative credit societies against embarking upon business undertakings the outcome of which they could not foresee. The society was meant to foster individuality. Schulze-Delitzsch avoided as much as possible such interference with the societies as might weaken their sense of independence and responsibility.

The treatment of administrative posts as honorary and unsalaried, is given as a characteristic of the Raiffeisen cooperative loan bank. This is not, however, peculiar to the Raiffeisen loan banks. It is only the natural outcome of the fact that the loan banks confined themselves to the rural communities. The scope of their activity is so narrow that gratuitous management of their business is a matter of course. We may, however, add the observation that whenever the societies have been forced by the pressure of economic circumstances to occupy a larger territory, a system of paid officials has immediately replaced that of gratuitous service. Furthermore, the gratuitous service of directors is not a matter of much consequence, for all the Raiffeisen loan societies have paid

accountants who are not members of the executive board. The Schulze-Delitzsch cooperative credit societies do not have such an official, their accountant being a member of the executive board.

The Anhausen model explains Raiffeisen's opposition to the creation of shares. Repeated efforts have been made to have this principle sanctioned in the law of associations, but the Government in revising the law was never inclined to recognize the validity of Raiffeisen's economic principle. However, Raiffeisen always managed to evade the compulsory legal requirement. Though the law required that the charter should contain a provision as to the amount of each share, he thought it sufficient to give the amount as zero. When the law of associations tried to put a stop to such evasions by expressly providing for shares, a share of 10 marks or less was often chosen. In practice Schulze-Delitzsch's view of the necessity of an adequate capital belonging to the society has gained ground, and it is only the extreme dogmatists who still insist that the members may not and should not participate in the society with their own funds. The highest authority in business for the Raiffeisen Banks of Prussia, the management of the Prussian Central Bank for Cooperative Societies, has repeatedly emphasized the necessity of building up business capital.

The adherents of the Raiffeisen loan bank movement lay great stress on the point that, in contradistinction to the Schulze-Delitzsch societies, there is no distribution of profits. They, however, overlook the fact that to renounce dividends means no sacrifice for the members

of the Raiffeisen loan banks. In view of their limited shares, this is to be regarded as a matter of course.

One of the characteristics of the Raiffeisen loan banks consists in the accumulation of a permanent fund; that is, of a fund that can not be distributed. The accumulation of this fund suggests the non-distributive funds of the French associations of Buchez. The underlying thought is highly ideal. Practically, however, this fund has been of no consequence.

Another characteristic of the Raiffeisen loan banks is that they do not confine themselves to the granting of credit, but include among their activities at least the purchase of feed and fertilizer. As a rule they meet, as has been said, all the economic needs of the village. Schulze-Delitzsch was not alone in opposing the combination of various industrial enterprises in one society. In 1890 the Imperial Federation of German Agricultural Societies adopted the following resolution: "It is not deemed advisable that one and the same society should devote itself to and pursue diverse aims and activities," and this resolution was adopted "in the interests of the proper upbuilding and development of the entire organization of agricultural societies."

Since its union with the Imperial Federation of German Agricultural Societies the Neuwied Federation has stopped publishing statistics. The statistics of the loan banks belonging to the Neuwied Federation are contained in the annual report published by the Imperial Federation.

XII.

SPECIAL LOAN BANKS (DARLEHNSKASSEN).

By W. Lotz.

[Article from Conrad's *Handwörterbuch*, third edition.]

(*a*) OBJECT OF THE LOAN BANKS.

Successful attempts have been made a number of times to avert an impending fall in prices and money stringency in political and business crises when it seemed likely that the depression would be of brief duration. These efforts are of three kinds: One is self-help—the strongest houses unite in associations for guaranteeing credit. Another is intervention by a central bank of issue. This is of course possible only where a central bank is in existence and enjoys freedom of action adequate to meet the emergency. The third way has been to create extraordinary credit institutions endowed with special funds supplied by the public authorities. The credit banks (*Darlehnskassen*) about to be discussed are institutions of this character. Their purpose is to facilitate the obtaining of credit in times of crisis and to prevent a sharp decline in the prices of securities and commodities.

Such institutions assumed importance in Germany in 1848, 1866, and 1870. Similar institutions have been established from time to time also outside of Germany.

The measures adopted to restore credit in France in 1830 and 1848 are in many respects similar.[a]

It is not here proposed to describe every loan bank or relief institution of a local character that may have been established in one or the other of the towns or districts of Germany. Nor is it purposed to deal with loan banks which operated with capital or with funds raised on interest-bearing obligations. We are now concerned only with the loan institutions established in 1848 and 1866 in Prussia, and in 1870 in Prussia and other parts of Germany on the Prussian model—institutions supplied with special non-interest-bearing bank notes expressly created for them. The history of these emergency loan banks is of interest as showing the contrasted attitude adopted toward the same institution under differing political circumstances.

(*b*) ESTABLISHMENT OF LOAN BANKS IN 1848, 1866, AND 1870.

On April 4, 1848, the King of Prussia decreed the issue of notes by the loan banks to the amount of 10,000,000 reichsthaler in denominations of 1 and 5 reichsthaler. This decree was issued in accordance with the resolution adopted by the Second United Diet, authorizing the issue of securities guaranteed by the Government. The Government's liability for these bank notes did not appear

[a] In 1830 and 1848 there were established in France extraordinary credit institutions (comptoirs d'escompte) intended primarily to facilitate discount transactions by bringing together the Bank of France and the public. To these there were added in 1848 institutions granting loans on merchandise as collateral. In France, in contradistinction to Prussian policy, the expedient of securing funds for these emergency loan banks by permitting them to issue their own bank notes was scrupulously avoided both in 1830 and in 1848.

on the surface. On the one hand, the notes were to be issued through loan banks created as independent legal entities. On the other hand, however, the Government expressly guaranteed them. In essential points the administration of these loan banks was bound up with the Government and with the Prussian Bank, a part of the capital of which was owned by the State. The administration of the loan banks was intrusted to the Prussian Bank, subject to the supervision of the Minister of Finance. The business of these banks was, however, put in charge of a special department of the bank administration in Berlin—the division for the central administration of the loan banks. Measures were taken to keep absolutely distinct the business of the loan banks and the other transactions of the Prussian Bank.

The purpose of the loan banks was to grant loans to business men in sums of not less than 100 reichsthaler, accepting as collateral merchandise or commercial paper. Whenever needed, loan banks could be established wherever there were branches of the Prussian Bank. In the absence of such branches the loan banks could arrange for agencies. The loan banks thus constituted an extension of the collateral loan department of the Prussian Bank, and were peculiar in that they were provided with special funds.

Two questions naturally arise in this connection: Why did not the Prussian Bank extend its business to meet this need for credit? What constituted the distinguishing element of value in the circulating medium issued by these banks?

The first question can not be answered decisively on the basis of the documents thus far made public. In any event, material modifications of the charter of the Reichsbank would have been necessary in order to enable it to perform with its own funds the task set for the loan banks. It would have been necessary to authorize an increase of its note circulation beyond the maximum of 21,000,000 reichsthaler allowed by the charter. Another obstacle would have been the requirement that no more than one-sixth of its circulation be invested in collateral loans, as also the restriction of collateral loans to sums of no less than 500 reichsthaler. Moreover, the Bank was forbidden to charge more than 6 per cent for collateral loans, whereas no maximum rate was set for the loan banks. Finally, there were restrictions on the kind of commodities and of commercial paper which the Prussian Bank was allowed to accept as collateral.

It does not, however, follow that it would have been impossible to modify the constitution of the Prussian Bank and adapt it to the new situation, instead of supplementing it with this emergency system of loan banks.

The second question is, What constitutes the intrinsic character of the non-interest-bearing bank notes which formed the working funds of the loan banks? The notes were made receivable as payment in lieu of cash. They were to be accepted at all public treasuries at their face value. Nevertheless they were not legal tender in private transactions. No promise was made that they were to be redeemable in currency. Provision was made for publishing monthly the amount of notes in circulation.

The entire institution was regarded as provisional. The loan banks were to be abolished within three years at most and their notes redeemed with the money repaid to the banks. In January, 1851, when the time limit was about to expire, Minister von Rabe proposed that the liquidation of the loan institutions be delayed. He proposed, further, that the bank notes be not withdrawn from circulation but that the non-interest-bearing debt of the State should be permanently increased by the amount of the notes. At that time the non-interest-bearing public debt amounted to 20,842,347 reichsthaler. This project of the minister passed the Diet—not, however, without vigorous opposition. In return for this measure demand was made that the credit business of these institutions be rapidly liquidated and their functions taken over by the regular banks.

The increase in the paper currency of the Prussian Government to the sum of 30,842,347 reichsthaler, which von Rabe's measure had put into effect, was rescinded as early as 1856. In that year about one-half of the government paper currency was withdrawn from circulation. At the same time there was conferred upon the Prussian Bank the right of an unlimited issue of bank notes.

The policy adopted in 1851 was manifestly dictated by the financial necessities of the Government, although this was not admitted. This is evident from the report of the committee of the Diet. Contrary to the purpose of the credit banks, out of a total of 8,813,985 reichsthaler outstanding at the close of 1850, less than half had been utilized for the benefit of the business community. Four

million reichsthaler had been loaned to the treasury of the central Government, 941,090 reichsthaler to the district authorities, the Berlin municipality, and the like.

From 1848 to 1851 the bank-note circulation of the credit institutions averaged 6,867,142 reichsthaler. It is the universal opinion that in the earlier period of the crisis, the extension of credit by these institutions had a most salutary influence. In all, 13 credit banks and 11 agencies were established, one of them in Leipzig. The institutions still in existence at the close of 1851 were mainly in the eastern provinces.

The establishment of credit banks was resorted to again in 1866. This time, however, the measure was received with less favor than in 1848. By a decree of May 9 the Diet was dissolved. A royal decree of May 12, 1866, suspended the remaining restrictions on the legal rate of interest. (One exception left standing is of no concern for our purpose.) This time the Prussian Bank was no longer hampered, as it had been in 1848, by a restriction as to the amount of bank notes it might issue. Nevertheless the Government hesitated to entrust the maintenance of credit to its sole care. In accordance with article 63 of the constitution of Prussia, credit institutions were again established. As before, they were organized in connection with the branches of the Prussian Bank. Instead of 10,000,000 reichsthaler, provision was made for the issue of 25,000,000 reichsthaler in denominations of 1, 5, and 10 reichsthaler. Loans in sums as low as 50 reichsthaler were authorized. Unlike in 1848 no formal government liability for the notes was assumed.

In all other respects the provisions of decree followed that of 1848.

Upon the victorious termination of the war Freiherr von der Heydt, who had meanwhile been appointed Minister of Finance, proposed that the Diet should give its ex post facto sanction to the royal decree. This proposal met with scant favor in the Diet. The occasion was taken to "censure the Government for its economic policy." Amid the applause of the house Deputy Schulze-Delitzsch pronounced this condemnation of the emergency credit institutions: "The Government was confronted by a European war of vast proportions. According to its own confession, it could not foretell its duration. Nevertheless, gentlemen, in an emergency, when every business man took care to restrict his business, and hesitated to enter upon new undertakings imposing financial obligations, the Government entered upon a banking business, for the operation of the credit institutions is nothing else but banking." The Diet refused its ex post facto sanction to the decree authorizing the credit institutions. The decree was accordingly annulled. The Government was, however, granted indemnity. Accordingly in the Prussian Code the annulment of the decree of May 18, 1866, is followed immediately by a law, bearing the same date as the annulment, providing that the legal acts of the credit institutions should in no way be prejudiced by the Diet's failure to sanction the decree of May 18, 1866. Moreover, this law repeated substantially the text of the decree, adding, however, the provision that no new loans should be granted after September 30, 1866.

The policy of Minister von Rabe in 1851 had created a prejudice against the institution. The Left insisted that this time the bank notes should be retired at once, to avoid another permanent increase of the Prussian public debt. On the whole after 1866 they succeeded in their endeavors. However, in order to relieve the crisis in the district of Gumbinnen there were again issued by the law of December 23, 1867, bank notes to the amount of 1,228,000 reichsthaler, which had not been destroyed, and in addition new notes amounting to 1,000,000 reichsthaler. Up to 1874 these sums constituted an addition to the non-interest-bearing public debt of Prussia.

The decree of 1866 establishing the emergency credit institutions at a time of the utmost political excitement was condemned in the Prussian Diet on both political and economic grounds. Nevertheless on the outbreak of the Franco-Prussian war the North German Diet lent its initiative to the demand for such a measure as a remedy for the crisis. The political situation had, however, undergone radical change. Schulze-Delitzsch, the deputy who had opposed the credit institutions as a matter of principle in 1866, took part in the deliberations, expressing himself in favor of the plan. The credit institutions of the North German Confederacy were authorized to emit 30,000,000 reichsthaler in notes of 5, 10, and 25 reichsthaler. Of this amount 29,651,000 reichsthaler were put into circulation. When the war was over the bank notes authorized by the North German Confederacy were duly called in and destroyed.

The Grand Duchy of Baden followed the example of the North German Federation. It authorized the "Gen-

eral Provident Institution" to issue 3,000,000 florins in non-interest-bearing loan bank notes of 5 and 10 florins. These were to be loaned on collateral. They were to be accepted at public treasuries and to be redeemed at the close of the war.

(*c*) LESSONS FOR THE FUTURE.

Will it prove advisable in the event of a war in the future again to establish emergency credit banks, or will it be better to leave the credit needs of the country at the beginning of the disturbance to the sole care of the Reichsbank and the other banks of issue, extending their powers if need be for the time? We have as yet no example of a political crisis in which the German banks of issue unaided proved equal to the credit needs of the country. In all probability if a war broke out there would be a tremendous demand for loans on securities of all sorts, particularly from private individuals and savings banks, and likewise from cooperative credit societies. On the one hand the Imperial Government and the individual States would be issuing loans and depressing the price of securities by their excessive flotations. At the same time private and public savings banks and cooperative credit societies would be making every effort to secure cash for their holdings of first-class interest-bearing domestic securities in order to have the resources to meet their obligations. It is not to the interest of the financial mobilization of Germany that all these security holdings should be thrown suddenly upon the market just when the first war loans are being floated. Some means of hypothecating these securities must be devised.

The Reichsbank and the private banks of issue, under §44 of the Bank Act, may not issue bank notes against collateral. They would therefore find it impossible to extend their bank-note circulation through loans on collateral, unless the provisions of the Bank Act should be modified in such emergencies. In times of peace, collateral loans are not so well suited as good short-time commercial paper to induce the constant redemption of bank notes. It is therefore altogether proper that collateral loans should be limited to the amount of the bank's original capital and reserves, or at most to that and also a small part of their Giro deposits. In times of war the problem is, however, far more complicated.

If we uphold the policy of 1848, 1866, and 1870, it might seem advisable to meet the need for collateral loans in times of political crises by creating again special loan banks, authorized to issue notes without promising to redeem them at once. The primary objections to this plan are the following:

1. The plan would result in a confusing variety of paper currency; there would be in circulation, in addition to bank notes and notes of the Reichsbank, the special loan bank notes. This confusion would be more distressing now than in 1848, 1866, and 1870. As a matter of fact the government would be obliged to assume liability for the notes. Another point to consider is the question whether the hasty emission of large quantities of notes at the outbreak of war might not lead to an increase in counterfeiting.

2. There would have to be a guaranty that the facilities created for collateral loans should be used in behalf

of the industrial community, and not be improperly diverted in secret for government uses, in pursuance of some near-sighted financial policy, as was done in 1850. The only way to provide against a repetition of such a policy would be to let the Reichsbank undertake the granting of collateral loans as part of its business on its own account, and to assume liability for it. Under sections 32 and 35 of the bank act, secret demands can not be made upon the bank by the treasury. Special loan banks, however, do not offer the same security against government abuse, not even when in charge of officials of the Reichsbank.

In view of the foregoing, much is to be said in favor of a policy, for the future, of refraining from issuing notes through loan banks, but rather of repealing in times of war certain hampering provisions of the bank act. In this connection, however, one important point must not be lost sight of—in times of peace the accumulations of savings banks and the business of cooperative credit societies must be regulated in such a way that they will not find themselves at the outbreak of a war with all their funds tied up in permanent investments, and compelled to seek excessive collateral loans.

Finally, in order to meet the various legitimate demands for credit arising in times of war from other sources than the discount of commercial paper, a considerable increase of the note circulation can not be avoided. In this situation, as the example of France in 1870 proves, the existence of a uniform circulating medium, supplied by a well-conducted central commercial bank, is of greater moment than the depreciation of the credit currency. To-day

there are further objections to loan banks. Under the law of February 20, 1906, the Reichsbank has gone so far as to issue in time of peace bank notes in denominations of 50 to 20 marks. Imperial treasury notes are available in the very smallest denominations. These considerations furnish additional ground for doubting the advisability of increasing the note circulation in times of war by adding to it the notes of loan banks. This would be particularly undesirable if the notes of the Imperial Bank should be made legal tender. As against a variety of notes resting on different guaranties, a uniform note currency is the lesser evil. Worst of all would be a condition in which one form of representative money would sink to a discount as compared with either another form of representative money or the standard coins.

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